THE BOOTS COMPANY

Report and Accounts

for the year ended 31st March 2000

The Boots Company embraces businesses operating principally in retailing, the manufacture and marketing of health and personal care products throughout the world and the development and management of retail property.

Our objective is to maximise the value of the company for the benefit of its shareholders. We will do so by investing in our businesses to generate strong cash flows and superior long term returns.

While vigorously pursuing our commercial interests, we will, at all times, seek to enhance our reputation as a well managed, ethical and socially responsible company.

Contents

→ In a tough year for retailers we grew sales by 5.6% and pre-tax profit before exceptional items by 1.8%. We're extending our international reach and building a world-class company. Our businesses are growing and we've returned over £311m to shareholders. But to stay competitive we need to keep on raising our game. We can and we will.

here's how...

	In brief	Key Facts	
BOOTS THE CHEMISTS	Boots The Chemists is market leader in many areas of its business including healthcare, cosmetics, toiletries, baby consumables, films and film processing.	1,404 total stores 55 edge of town 28 Republic of Ireland 2 free-standing 'photo centres' 18 health centres	62,133 employees
BOOTS RETAIL INTERNATIONAL	Responsible for internationalising the Boots retail brand, as the worldwide health and beauty expert, the business is currently operating in the Netherlands, Thailand and Japan (a joint venture) while investigating new territories for further expansion.	69 total stores 16 the Netherlands 50 Thailand 3 Japan	961 employees
OPTICIANS	One of the UK's largest chains of opticians. Boots own brand products account for 68% of all sales.	298 stores 147 instore (BTC) 151 free-standing	4,349 employees
HALFORDS	The UK's largest retailer of car parts, accessories, cycles and cycle accessories. The strong and growing Halfords brand accounts for 48% of all sales. Halfords is also the largest garage servicing organisation in the country.	410 total stores 80 high street stores 317 out of town superstores (137 with garages) 13 motorway stores	9,791 employees
BOOTS PROPERTIES	Manages the group's freehold and long leasehold property portfolio. Its prime objective is to give the Boots retail businesses readier access to the locations they seek.	614 retail properties	80 employees
BOOTS HEALTHCARE INTERNATIONAL	Responsible for the development and marketing of consumer healthcare products in the UK, Europe, Africa, the Indian sub-continent, South East Asia, Australasia and Latin America. The core brand range includes Nurofen, Strepsils, E45, Lutsine, Onagrine, Balneum and Unguentum.	23 operating businesses around the world 130 countries in which products are sold	2,378 employees
BOOTS CONTRACT MANUFACTURING	Develops and produces a wide range of own brand products for Boots The Chemists, consumer products for Boots Healthcare International and numerous products under contract for other major European and multinational companies.	3 factories and 1 major development laboratory in the UK 4 factories in Europe	4,021 employees
handbag.com	handbag.com (a joint venture) is the leading website for women in the UK. The focus is on attracting regular repeat visits through breadth and depth of content, expert advice and interactive features. The site is constantly kept up to date and content changes daily.	200,000 average monthly users 76,000 ISP accounts	14 total employees

	Turnover £m		Operating profit/(loss) £m
00	**3,978.8**	**00**	**491.6**
99	3,823.1	99	461.8
98	3,573.7	98	443.8
97	3,313.5	97	426.5
96	3,107.6	96	384.8

00	**32.5**	**00**	**(32.6)**
99	15.8	99	(20.9)
98	5.2	98	(21.2)
97	–	97	(8.5)
96	–	96	(1.1)

00	**195.7**	**00**	**11.2**
99	194.3	99	14.5
98	182.9	98	17.0
97	148.1	97	13.8
96	132.3	96	10.9

00	**492.6**	**00**	**45.2**
99	457.3	99	40.3
98	435.0	98	34.2
97	412.8	97	26.8
96	390.5	96	22.1

00	**139.5**	**00**	**62.3**
99	96.3	99	65.2
98	149.6	98	76.0
97	102.1	97	72.1
96	102.9	96	68.2

00	**327.1**	**00**	**24.0**
99	308.4	99	15.3
98	273.7	98	1.2
97	243.4	97	(6.6)
96	206.7	96	(8.2)

00	**321.1**	**00**	**25.2**
99	309.8	99	24.3
98	314.9	98	24.7
97	259.5	97	19.7
96	239.4	96	16.7

00	**0.1**	**00**	**(2.9)**
99	–	99	–
98	–	98	–
97	–	97	–
96	–	96	–

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239.4	96	16.7
0.1	**00**	**(2.9)**
–	99	–
–	98	–
–	97	–
–	96	–

→ by creating value that is impossible to ignore. The Boots brand offers immense potential for us to realise.

Taking stock after 13 years as chief executive and then chairman of Boots, I am struck by the great changes both behind us and ahead. We are now geared for accelerating change as we take the Boots brand into a faster paced environment, grow internationally and seize the opportunities of the new economy. We have an outstanding team under Steve Russell, who has been an inspiring leader at Boots The Chemists, and I have enormous confidence in the group's future.

Results Sales from continuing operations rose 5.6% to £5,189.4m. Profit before tax, QUEST costs and exceptional items grew 4.8% to £587.4m.

This was the first full year of our QUEST share scheme under which we buy in the open market shares needed to cover all the options granted under a SAYE share option scheme. The £16.6m charged to profits covers options arising during the year. Exceptional items were £22m for Boots The Chemists head office reorganisation, partly offset by £12.9m profits on the sale of properties. The resulting profit after tax was £399.2m.

Dividend The proposed final dividend of 17.7p per share makes a total for the year of 25.2p – up 5.9% on last year.

Shareholder value Few people anticipated how the stock market would pursue new technology in 1999, or how severely this would impact on more traditional 'value' shares. The market's division into old and new does not fully recognise the fundamental value and strength that companies like Boots continue to show in a changing environment.

Our results show continued ability to adapt, and meet competitor and consumer change. We have been preparing for even greater changes, and these will be increasingly apparent in the year ahead. You will find more details on the following pages.

As the year closed, share valuations were beginning to reflect more solid analysis of business fundamentals. Despite our disappointing share price in the second half of the year, we believe managing for value will secure substantial returns over the longer term because:
– We have growth potential in the UK as we move the Boots brand and its credibility further into healthcare and into new markets
– We are successfully meeting supermarket competition head-on
– The internet represents an opportunity for us, not a threat
– We are unlocking international potential.

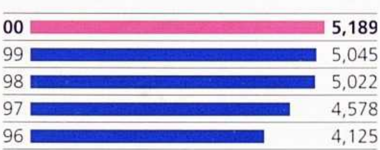
Directors Steve Russell succeeded me as chief executive on 1st April. On 1st August I will be succeeded as chairman by John McGrath, a non-executive director since 1997. Ken Piggott joined the board on 1st April, on moving from Halfords to lead Boots The Chemists.

Among the non-executive directors, we lost Sir Peter Davis when he became chief executive of J Sainsbury, but during the year we gained two others: Dr Martin Read, chief executive of Logica and non-executive director of British Airways and Sir Nigel Rudd, who is also chairman of Williams, non-executive chairman of Pilkington and Pendragon, and a non-executive director of Barclays.

Outlook I believe the measures we are taking will deliver growing shareholder returns. We have the vital advantages of a fundamentally sound business and outstanding people at all levels. My thanks to all of them for what they have built and will go on building.

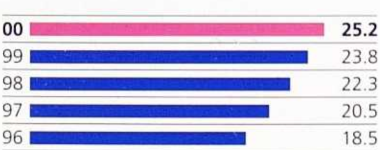
Lord Blyth of Rowington
Chairman

Turnover £m



Operating profit before exceptional items £m

Dividends p



(1997 excludes 44.2p special dividend)

→ by competing from strength – with a clearly differentiated offer that competitors are unable to match.

Even in the face of highly publicised price competition, we've maintained market share in our core health and beauty market.

That should come as no surprise to the 12.5 million people who visit a Boots The Chemists (BTC) store each week. BTC competes aggressively through 250 price reductions and promotions at any time, and is well known for its '3 for 2' and '2 for 1' offers. And the Advantage Card provides four times the benefit offered by supermarket loyalty cards. In survey after survey, customers say they like our approach and recognise that it represents good value. Research shows that across a typical basket of goods our prices and offers remain competitive with those of the leading supermarkets.

We don't compete on price alone. What marks Boots out from all other retailers is its unique combination of value with quality, range and service. And when asked, health and beauty shoppers say these factors are even more important to them than price.

We guard our reputation for quality jealously. And Boots Contract Manufacturing (BCM) gives us direct control over the development and production of innovative Boots branded products.

No one comes near us for range. We offer over 25,000 health and beauty items and only 16% of our sales overlap with those of the major supermarkets.

But the greatest strength of the Boots brand has always been service and expertise. People trust us because they know they can come to us for sound advice. We employ over 4,000 pharmacists and recruit about a third of all UK pharmacy graduates every year. We have 3,500 beauty consultants and train another 650 each year. We invest £24m a year in training to make our store staff some of the best in the business.

We introduce smart ideas like dispensing carousels that make pharmacy service significantly quicker. And our service is combined with an uncompromising ethical position – our role as the UK's leading pharmacist gives us a unique perspective on everything we do.

We take pains to know our customers well. And the Advantage Card – the world's largest smart loyalty card – is helping us to know them even better. The Advantage Card database is enabling BTC to manage merchandising better and communicate with customers more effectively through direct mail and new instore kiosks. For example, analysis showed that 65% of Botanics buyers chose from only one of the five product categories covered by the range. So the new range, relaunched in January 2000, was specifically designed to move buyers across categories – and sales have doubled.

We're continuing to develop the Advantage Card as a product in its own right. In a novel tie-up with Egg, the internet bank, we're launching the Advantage Credit Card – which earns Advantage points wherever it's used.

Given all these strengths, it's little wonder that when we take the contest to competitors' doorsteps, we prosper. BTC is doing particularly well in edge of town locations, especially when next to flagship supermarkets.

No retail brand is more accessible and more trusted. With 1,400 BTC stores in the UK, we are present in virtually every town, shopping centre and major transport interchange. And this reassuring ubiquity, this promise of being 'there for you', provides a tremendous foundation for extending the Boots brand...

Boots The Chemists average transaction value £

00	7.05
99	6.70
98	6.46
97	6.11
96	5.66

Consumer trust in brands
% trusting brand to be 'honest and fair'

Boots	**72**
Marks & Spencer	66
The Body Shop	59
Tesco	59
Asda	59
Sainsbury's	57

Source: The Henley Centre 1999

What we'll always stick to are the quality, trust and value that have earned the trust of generations.

→ by extending into new markets – where our trusted name gives us unique advantages.

Our trusted and authoritative position in both health and beauty markets opens up avenues for brand extension.

Some we've already tested successfully and begun to roll out nationally: over 90 BTC stores now have skincare consultancy units, we'll have around 150 instore dentists and 80 hygienists by the end of the year, and we're currently fine-tuning our chiropody service before taking it nationwide. More new ideas are currently on trial – including beauty treatment areas, a NHS Walk-In Clinic, and instore telephone points where customers can seek advice from NHS Direct.

Looking further ahead, there is obvious scope to build on our expertise in general wellbeing and fitness. Research shows that people are increasingly interested in health and fitness; and ageing populations are increasingly taking responsibility for their own health and wellbeing. We are developing our plans to invest in these growth opportunities by extending the Boots offer.

In a comparable way, Halfords has successfully trialled new shop formats which are achieving significant sales improvements by appealing to serious auto and cycling enthusiasts.

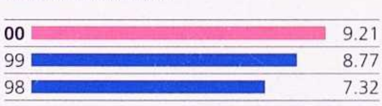
Our approach remains shareholder value driven. As we pursue new opportunities with strong margin potential, we will not shrink from pulling out of areas where margins are becoming unattractive. We're withdrawing, for example, from leisure areas such as music, video and cookware, because we can use the space for new activities that increase focus and create more value.

Expert advice will continue to be a central part of our offer as we extend the Boots brand. We're already experienced in recruiting and training professionals in fields such as pharmacy, optometry, dentistry, chiropody and beauty care – and we expect to broaden into more new categories this year. Halfords is recruiting more full-time store staff who share the passions of auto and cycle enthusiasts and have the knowledge to give them credible advice.

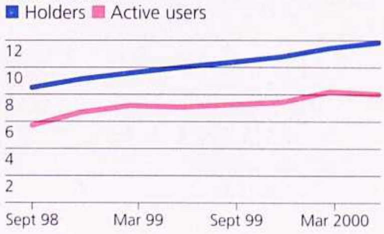
Dialogue with customers helps us ensure that we can take them with us when we move into new markets. We never take their trust and loyalty for granted. The Advantage Card, with over 12 million holders, gives us unrivalled insight into their interests and behaviour. This guides our communication through direct mail, magazines, catalogues and most recently the internet. And we are making these channels more interactive, so that we can listen to customers and understand them.

The better we understand, the more we can do...

Boots The Chemists average Advantage Card holder transaction value £



Boots The Chemists Advantage Card users m



We can open up new opportunities because people see us as experts in health and wellbeing.

→ by exploiting the power of our own brands – and our expertise in creating new ones.

We have long-established strength in own brands. At BTC, Boots own brand ranges account for nearly 41% of counter sales. Halfords is a trusted name in its own right for auto parts and cycles – own brands now represent almost 50% of sales and it's the UK brand leader in motor oil and car batteries.

This success contributes substantially to the strength of our margins. And it extends far beyond 'own label'. Boots is almost unique among retailers in its ability to create a succession of brands that have self-sustaining market prominence and consumer appeal.

No7 is the UK market leader in cosmetics, with annual sales of nearly £90m; and 17 cosmetics generates over £40m a year. Natural Collection has grown into a £40m brand, and Soltan's sales of nearly £25m make it clear leader in the UK suncare market. Britons swallow over 500 million Nurofen tablets a year, making it the nation's No1 painkiller. And relaunched in January, Botanics is now an £18m brand.

We established a brands unit to focus our investment in new product development on brands with real growth potential. The first fruit of the new approach was Tricologie, a novel haircare range with special point of sale material enabling customers to select exactly the right combination of shampoo and conditioner for their type of hair. Since launch in October it has increased their average spend on haircare products by 20%. In May 2000 we launched Glitterbabes, a range of co-ordinated cosmetics, accessories and stationery for pre-teen girls. And in June we launched Fresh! – a cheeky range of fun but sophisticated bath and gift products. We plan to create four more major new brands in this financial year.

Our brands are not me-too products. We have an enviable record of innovation – and being able to develop products in-house at BCM means we can bring new products to market quickly and retain more of the value chain. We're also good at keeping brands fresh – as with the recent relaunch of Botanics, where we applied detailed understanding of the way customers were selecting from the range of an already successful brand.

Our ability to create brands (and the products behind them) makes us an attractive partner. Charles Worthington, now a £13m haircare brand, showed what we can do in collaboration with proprietary houses and specialist companies. We launched Liz Collinge cosmetics in April, and other high-profile partnerships are in the pipeline.

Our market strength also enables us to negotiate 'exclusives' – as Boots Opticians has done with the technology behind its Near and Far varifocal contact lenses.

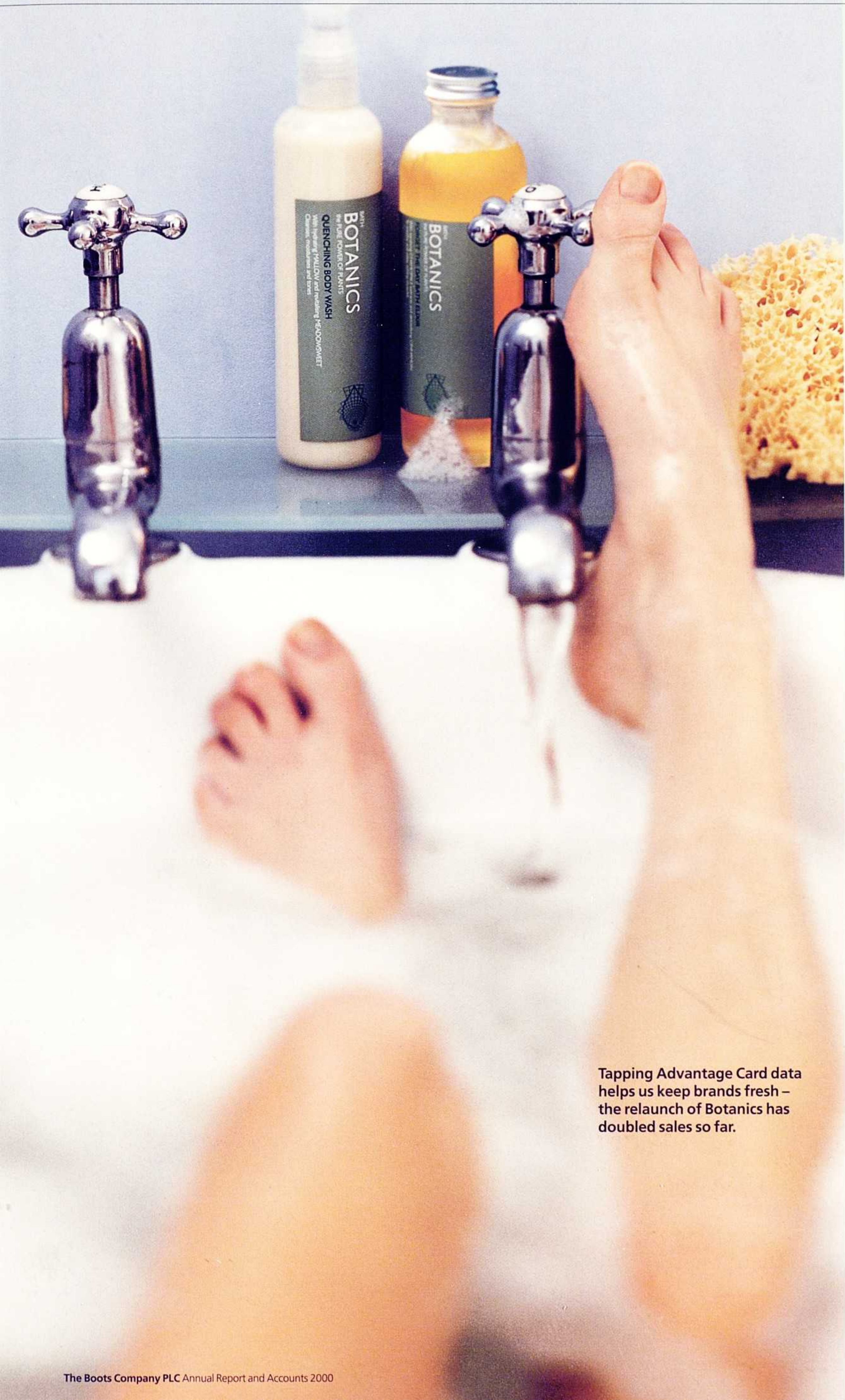
But surely any brand worthy of the name should reach beyond these shores? Is Boots doing enough to exploit the international potential of these great brands? In the past, we may have had other priorities – but that's now changing fast...

Boots The Chemists own brand sales £m

00	**1,490**
99	1,443
98	1,367
97	1,296
96	1,219

Halfords own brand sales £m

00	**237**
99	214
98	197
97	172
96	136



Tapping Advantage Card data helps us keep brands fresh – the relaunch of Botanics has doubled sales so far.

→ by reaching out internationally – with products and services that have worldwide consumer appeal.

Tomorrow the world? Well, today actually! Boots Healthcare International (BHI) is marketing in around 130 countries, and Strepsils and Nurofen are fast becoming global brands.

After years of carefully directed investment, BHI is becoming a force in over the counter medicine worldwide – and increasingly profitable. Over the past five years it has been Europe's fastest-growing self-medication business. Strepsils is now market leader in 20 countries and Nurofen is the leading analgesic in three. An important factor in this success has been constant innovation to extend ranges (there are now 14 Nurofen variants including liquid, effervescent and children's versions) and to meet local market needs with tailored products such as the Strepsils Ayurvedic range in India, which combines Western and traditional Indian medicine.

Over the past three years we've been building an overseas retail business. Boots Retail International (BRI) is proving that our traditional strengths – value, quality, range and service – are in demand in much of the developed world.

In Bangkok, Rotterdam and Tokyo, consumers have taken to Boots branded ranges with enthusiasm. Own brands account for some 33% of BRI's overall sales. In fact, customers have been so impressed with the performance of our brands that we are currently exploring ways of introducing them to new international markets.

It's still early days for BRI, but it is already developing as a truly international organisation rather than a series of foreign outposts. Among over 1,300 staff in Thailand, the Netherlands and Japan, fewer than 20 are UK expatriate managers. In Thailand, all but two of the executive management team are now Thai nationals. Rapid progress to local management is an important part of BRI's strategy, and each country's executive team is composed largely of local nationals from the start. This approach has helped the business to attract local staff of the highest calibre.

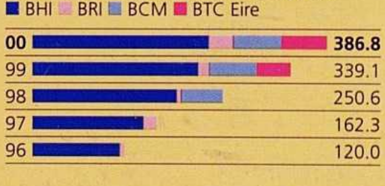
We now employ over 80 pharmacists in Thailand – more than anyone there except the government. The store staff have responded with real enthusiasm to our training programmes – and as a result, our service is visibly better than that of competitors.

Our international healthcare and retailing businesses are strongly supported by BCM and generate increasing amounts of business for it. As we venture into new territories it becomes increasingly important to be able to develop new and specially tailored products quickly. Who else could have reformulated and repackaged some 1,400 products, in time for BRI's entry into Japan – as well as developing special products for the Japanese market, such as a No7 branded skin whitener?

The progress we've made so far convinces us that we can substantially increase the scale of our overseas sales.

As well as reaching out around the world, we've also been exploring new communication channels with our e-shopping websites and our handbag.com joint venture. Although these are currently directed at the UK market, the internet knows no national boundaries. It offers almost unlimited possibilities, if you're prepared to look at the world in a new way...

The Boots Company non-UK sales £m



The Boots Company non-UK employees

We've proved that our brands can travel, and you'll now find more Boots stores in Bangkok than in Birmingham.

→ by thinking in completely new ways – constantly challenging ourselves to surprise and delight our customers.

"Be more innovative" is today's business mantra. So what's new? The advantage has always been with the companies that think ahead of the herd.

Innovation has always been part of the Boots culture and it has served us well. We habitually launch around 2,000 new products a year, of which some 1,500 are developed in-house by BCM.

We're constantly reinventing products and brands to meet changing tastes and needs. When you're facing the kind of competition we see today, when you're grappling with the new economy, and when you're reaching out internationally, you have to evolve faster than ever.

Social and technological change is presenting us with unprecedented opportunities. To seize them we have to be quick, clever and determined. We are fortunate to have people of quality and commitment – but we must harness those qualities and drive them forward with even more ambition, inventiveness and willingness to take risks. The world is changing too fast to wait until we're 100% sure before we act: someone else will step in when they're 80% sure, and take first mover advantage. We're rethinking Boots for a decade ahead, and we're prepared to try out ideas to see which are the ones that will prove themselves in the market.

The change is more than skin deep. We began the process a couple of years ago by redefining our management style. We identified the kind of leadership we'll need in future, and the senior management teams throughout the group are focused on leading the thinking, leading the pace and leading the team.

We're addressing the process from the bottom up as well as the top down. BHI, for example, has involved its whole workforce in developing a set of guiding principles for the business and determining how best to put them into practice.

The new economy is demonstrating how fast you can grow with less hierarchy and more initiative. We had handbag.com – now Britain's premier women's website – off the ground and onto the net within three months of seeing the opportunity.

We're fostering openness and collaboration, and I'm delighted by the energy this has created: we're unlocking people's potential, freeing them to think more broadly and make more decisions.

Managing for value is still central to our approach. But now it's not just what managers do – we're working to embed it in everyone's thinking. Boots people have responded with their customary enthusiasm, and it's exciting to see the pace of the organisation quickening.

This is how we will reshape our business: not just with new products or brands or business initiatives but with new attitudes. Boots sees a great future ahead – and we're impatient to make it happen.

Steve Russell
Chief Executive

1


2


3


BTC
1 Established Boots brands like No7 cosmetics remain UK market leaders in their sectors.
2 BTC accounts for a quarter of the UK over the counter medicines market.
3 The January 2000 relaunch of the Botanics range was outstandingly successful.
4 The Advantage Card is the UK's most popular loyalty card, with over 12 million in circulation.

4


While supermarket competition grabbed the headlines, Boots The Chemists continued to increase its market share and operating margins in its core market. Our businesses grew and showed a healthy underlying pattern of increasing profits. In a year when dotcom companies held investors in thrall, we launched handbag.com, the UK's most successful women's website, Boots The Chemists created a new e-tailing channel for market-leading brands – and you could even find a £50m shopping centre for sale on the Boots Properties website.

Boots The Chemists (BTC)

Managing director	Ken Piggott
Sales £m	3,978.8
Increase %	4.1
Profit £m (before exceptionals)	491.6
Increase %	6.5
Sales split	**%**
Health and beauty	77.5
Photo, food and baby	16.6
Non core categories	5.9
www.boots.co.uk	

BTC continued to grow sales and profits. Despite aggressive supermarket competition it increased its share of the health and beauty market without sacrificing margin. Turnover rose 4.1% to £3,978.8m. In its core health and beauty markets BTC grew sales by 5.3% and maintained margins. Operating costs were reduced as a percentage of sales and revenue costs of strategic investment activity amounted to £37.5m. Profit rose 8.9% to £502.7m before QUEST costs of £11.1m and exceptional costs of £22.0m relating to head office restructuring. Capital investment fell from its 1998/99 peak to £116m.

Strategy BTC's understanding of customer needs in health and beauty is second to none. Building on this critical competitive advantage, for example through analysis of Advantage Card data, it will continue to strengthen its leading position in health and beauty retailing. Its customer appeal will still be founded on unrivalled product range, innovative own brands, and expert service and advice. Its authoritative product offer, increasingly focused on health and beauty, will be complemented by a growing range of health and beauty related services building on the proven success of Boots Opticians and Boots Dentalcare.

Sales and margin Health and Beauty sales were up 5.3%, with an increase in market share – led by strong share gains in cosmetics, fragrance, electrical beauty and toiletries. Sales performance of premium cosmetics, haircare and skincare products was particularly strong: BTC's success in moving customers upmarket has helped it to raise sales and maintain margin despite supermarket price pressures.

Pricing Clearly, pricing strategy influences both sales and margins. Grocery price wars foster the impression that permanent across-the-board discounting is crucial to drive sales; but recent studies confirm BTC's view that this approach is too simplistic and may merely damage margins. Research for the Institute of Grocery Distributors concluded that shoppers prefer larger, occasional discounts on selected lines. A study by The Henley Centre found that only 6% of consumers are primarily price-driven: four times as many may be actively alienated by low prices, which they associate with low status or inferior quality. BTC's continuing gains in health and beauty sales and market share demonstrate that consumers favour its combination of quality, service, value and special offers.

Advantage Card The Advantage Card is proving effective in creating customer loyalty, and transaction values among the most frequent Advantage customers rose 6.1% in the year. There are now over 12 million cards in circulation and 47% of BTC sales are linked to the card, with 68% of holders using their cards regularly. In autumn 1999 BTC invested some £14m to put 1,400 Advantage Point kiosks in larger stores, offering personalised promotions to card users.

Advantage Card data is enabling BTC to target customers more accurately through kiosks and direct mail, and to manage merchandising better. BTC sends its new Health & Beauty magazine quarterly to the two million most valuable Advantage Card users and uses card data to refine the mailing list. The average spend of the magazine's readers has increased 3.9% over the year, and it is now the UK's largest circulation women's title.

1


BTC
1 Fresh! – a 'cheeky' range of bath and gift products – is the newest Boots brand, launched in June.
2 Liz Collinge cosmetics are the latest in a series of brand collaborations with well-known partners.
3 Tricologie offers a unique way to choose exactly the right combination of products for your hair.

2


3


BRI
4 Boots now employs more pharmacists in Thailand than anyone except the government.
5 BRI stores provide a new outlet for our international brands such as Strepsils, in local packaging.
6 We are now developing own brand products for local markets, such as No7 skin whitener for Japan.
7 Boots has been successful in Thailand and we see opportunities for up to 150 stores.

4


5


From September, card holders can apply for the Advantage Credit Card, which BTC is launching in association with Egg. This combined credit and loyalty card will earn Advantage points wherever it is used, plus bonus points in Boots stores and the Egg online shopping zone.

Products and services BTC has an outstanding record in developing 'power brands' that attract customers and increase transaction values and margins. It spends some £20m a year developing brands and is stepping-up this activity.

The relaunch of Botanics in January 2000 was outstandingly successful – sales have doubled so far. And Tricologie, a 'scientific' new haircare range, increased its customers' haircare spending by 20%. Eight new brands planned for this year include exclusive ranges developed with well-known partners such as Liz Collinge, whose cosmetics range was launched in April 2000.

For some years BTC has been gradually withdrawing from leisure areas such as music, video, cookware and greetings cards, while retaining areas that generate good footfall: food, photo and baby. It is now accelerating this process to create space for new health and beauty related services.

It has also opened two trial Men's Stores in Bristol and Edinburgh, together with a men's internet site on www.boots-men.co.uk. The stores offer shaving, facials, hair styling, chest waxing, massage and manicures.

Store development BTC now has 55 edge of town stores and remains on target to achieve the goal of 200 stores. Existing edge of town stores are maintaining double digit sales growth.

Although BTC is committed to substantial further growth in edge of town shopping centres, it will remain one of the country's pre-eminent high street retailers. Recent research by *Verdict* indicates that the drift of business away from high streets has halted and that a revival of town centres may have begun.

At Manchester, Bluewater and a number of smaller stores BTC, is trialling exciting new ways of presenting the health and beauty offer – many will be adopted in other branches this year. There were 70 major store refits and resizes.

Cost management Actions taken during the year included rationalisation of the head office structure, which reduced staff numbers by 500, streamlining of the regional organisation and changes to senior management in marketing.

The cost management programme, which aims to achieve savings of £160m over four years from April 2000, is currently ahead of schedule. Savings achieved by the year end totalled £32m and BTC expects to be halfway to its target by the end of 2000/01. Exceptional costs arising from implementation of the cost programme were £22m in 1999/00.

Outlook BTC is launching new ideas at an accelerating rate. The first of the year's new brands are already out: Glitterbabes for pre-teen girls in May 2000 and Fresh! bath and gift products in June. The cost management programme will help to support profitability by cutting the costs/sales ratio by one percentage point a year in the four years to March 2004. The market will remain tough, but BTC has never been more competitive.

Boots Retail International (BRI)

Managing director	Martin Bryant
Sales £m	32.5
Increase %	105.7
Loss £m (before exceptionals)	(32.6)
Decrease %	(56.0)
Sales split	**%**
Thailand	53.2
Netherlands	35.4
Japan	11.4
www.boots.co.jp	

BRI continues to expand rapidly. Sales rose 106% to £32.5m, led by 125% growth in Thailand. Total investment was £40m (1998/99 £43m) as BRI opened 41 new stores, mainly in Thailand, taking the total to 69. This high investment, and accelerating new market development, resulted in a 56% increase in operating loss before QUEST to £32.5m – in line with expectations.

Strategy The globalisation of beauty brands and the trend in many markets to self-medication bring great opportunities for Boots and its unique brand portfolio. BRI has focused initially on South East Asia, the Netherlands and Japan. South East Asia offers many exciting opportunities: many countries have growing, affluent middle class populations, a positive view of Western products, good prospects of economic growth and room for a distinctive retail format. Europe is more challenging but offers proximity and ease of product registration. Japan is the world's second largest health and beauty market.

Thailand Sales rose 125% to £17.3m, with 29 new stores taking the total to 50. Like for like sales were relatively flat in the first half but accelerated in the second half as the economy recovered, giving a healthy full-year increase of 8%. Metropolitan customers have taken to Boots with enthusiasm – and, encouragingly, the first four stores outside Bangkok have also been successful. As consumers become increasingly confident, BRI sees

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BOL
8 Established Boots brands include the Zero range of frameless spectacles.
9 BOL was the first chain to offer its own brand of innovative varifocal contact lenses.
10 Own brand contact lenses account for 90% of all new contact lens fittings.
11 2K:AD was one of several new own brand 'designer' ranges launched during the year.

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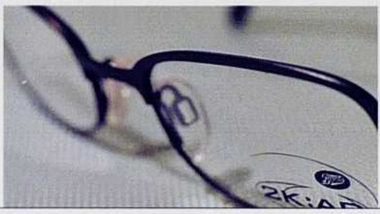

substantial opportunities for up to 150 stores.

Netherlands Sales rose 77% to £11.5m, with nine new stores taking the total to 16. BRI has successfully launched an attractive format which quickly achieved market average sales levels; but further growth is proving difficult in highly competitive conditions. Making pharmacy work is a particular challenge. As a result, like for like sales growth has proved disappointing and expansion has slowed.

Japan The first three stores made an encouraging start, with Mitsubishi proving to be an excellent joint venture partner. The rapid registration of over 2,000 products – over 1,400 sourced from BCM – is an impressive achievement. The business is still experimenting to find the most appropriate mix of location and merchandise. The pilot stores are in contrasting Tokyo locations – prestige, fashionable and commuter suburb.

Taiwan BRI plans to open five stores this year. Taiwan has an affluent population of 22 million and a relatively under-developed health and beauty market. As in Japan, BRI will test different locations and formats: key BRI staff will bring their highly relevant experience from Thailand and Japan.

Supply chain Boots own brands continue to be an important differentiator in all markets, and BRI benefits from BCM's expertise in reformulating and repackaging products for local registration. It is now developing new products specifically for local markets – and buying more local products. It has also begun sourcing a few Boots branded lines locally – an important step towards the substantial margin benefits of a local own brand supply base.

Outlook BRI's offer clearly has strong appeal in South East Asia, and it sees good opportunities in Japan. It is investigating new markets and reviewing its supply chain.

Boots Opticians (BOL)

Managing director	Stephan Murray
Sales £m	195.7
Increase %	0.7
Profit £m (before exceptionals)	11.2
Decrease %	(22.8)
Sales split	**%**
Spectacles	73.6
Contact lenses	14.5
Other	11.9

BOL sustained sales at £195.7m despite strong competitor activity, particularly in new store openings, and underlying profits improved sharply as a result of tight cost management. After allowing for the impact of new store systems, QUEST and the introduction of free eye tests for over-60s, profits were £11.2m.

Strategy BOL is investing to achieve leadership in a fiercely competitive market. The year saw major investment in systems to improve both operations and the supply chain. Continued investment in customer service, differentiating the BOL offer and improving communication with customers is already succeeding in raising average transaction values.

Sales A number of factors had an adverse impact on sales growth: the prior year's successful customer recall programme; the introduction of free eye tests for the over-60s which reduced income and temporarily changed customer mix; and also the disruptive effect of implementing a new store system. Growth resumed in the second half, with final quarter sales up 6%.

New products and services Across the entire product range BOL has been working to remove complexity, simplify and improve choice, and deliver exciting new and enhanced products. A very wide selection of designer brands – including Calvin Klein and French Connection – is supplemented by Boots sub-brands. Two of these, Titanium and 2K:AD, were launched during the year. Innovative contact lens developments included varifocals: BOL was the first chain to offer its own brand, Near and Far.

BOL has also been trialling an instore lens crafting process which enables lighter, clearer spectacle lenses to be produced in the store more rapidly than by traditional methods and covers bifocals, varifocals and tints. Benefits to the customer will be a higher quality product available at the most convenient time. BOL plans to introduce the technology in up to 250 stores over the next two years.

People In a service-led business, people are especially important. BOL's reputation ensures steady recruitment of professional staff to extend consultation hours and improve customer service. BOL remains the leader in pre-registration pass rates for optometry students and maintains a respected programme of continuing education. The quality of its store management will be sustained by a strong management trainee scheme.

Capital investment The year's major outlay was the £11m investment in the new store system. This integrates customer records, product selection, sales, co-ordination of supply, inventory control and personnel management. It will improve sales through sharper direct marketing, reduce costs through better inventory management and direct ordering, and provide the platform for future communication and IT developments.

Outlook The new store system will improve margins, efficiency and customer waiting times, particularly as it starts to impact on the supply chain. Significantly increased investment in advertising and promotion should stimulate sales, although profits will reflect continuing heavy investment in introducing instore lens crafting. Following this, BOL will be ideally placed to drive further profitable growth through measured investment in its store portfolio.

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Strategic initiatives
4 Trials of Boots Dentalcare have been so successful that we plan to open 44 more surgeries this year.

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handbag.com
1 Boots stores have supported the new website by giving away three million handbag.com CD-ROMs.
2 Of the site's 17 channels, the most popular is the health and beauty channel sponsored by Boots.
3 With some three million page impressions a month, handbag.com is the leading UK women's website.

handbag.com

Managing director	Dominic Riley
Sales £m (Boots share)	0.1
Loss £m (Boots share)	(2.9)
Sales split	**%**
Advertising/sponsorship	70.6
e-commerce	21.3
Telephony	8.1
www.handbag.com	

Launched in October 1999, handbag.com is firmly established as the leading dedicated UK women's website. It attracted over 570,000 individual visitors in its first six months and is currently recording around three million page impressions a month. Sponsorship income is growing, and already 54 retail concessionaires offer e-shopping through the site. It is the largest traffic generator for the BTC shopping site. The group's investment in handbag.com – a joint venture with Hollinger Telegraph New Media – was £2.8m during the year.

Strategy Boots entered this venture to develop a new relationship with women consumers and to create a powerful position in online retailing with international potential. Managing director Dominic Riley was recruited in June 1999 having previously been in the team that created Europe's busiest website for BBC Online. The site was developed and launched very rapidly in order to gain first mover advantage, and aims to maintain market leadership by being the most useful website for UK women. It provides 17 channels of content featuring high levels of interactivity and advice from recognised experts. So far, the health and beauty channel sponsored by Boots has proved the most popular. The shopping channel is the second most popular. The site will continue to develop as an invaluable resource for women, offering expert advice, an online community and a place to shop. It is anticipated that the business will move into profit in its third year.

Revenue The site has three sources of income: commission on shopping sales, advertising/sponsorship and telephone charges. It has attracted 54 retailers to date, from niche shops to major names such as HMV and Interflora. Its focused audience of female consumers commands premium advertising rates, and sales are already above the industry average. It is currently developing an audited process for monitoring customer retention, and early signs indicate a strong customer base.

Business development Once the opportunity had been identified, handbag.com was developed in just three months. Substantial investment went into creating quality content, to ensure repeat traffic. The site has been heavily promoted, and three million handbag.com CD-ROMs offering free internet access and email have been distributed through Boots stores. Research in March showed that the site had almost five times more awareness among women internet users than any rival women's site and was also leading the field in number of users. Content changes daily to maintain interest and reward repeated visits.

Outlook The group expects to invest a further £4m in the business this financial year. Promotion will increase, with TV and radio advertising campaigns in spring and autumn. New entrants will make the market increasingly competitive: to maintain its early lead the site will introduce new features – including a reference library, an auction channel, an interactive novel and a build-your-own cookbook. During 2000 it also expects to conduct trials with interactive TV and WAP phones and to distribute its original content through other popular websites, as part of a strategy to develop as a multi-channel brand.

Strategic initiatives

Sales £m	2.4
Revenue invested (net) £m	(17.7)

A number of new ventures have been developed during the year at a net revenue investment of £17.7m.

One of the new businesses, dentistry, has proved a great success. Customer response has been very positive and patient registrations have run well ahead of expectations. Dentistry is a further natural extension of the Boots brand, following the success of Boots Opticians.

Other products and services for the improvement of physical and mental wellbeing have been developed and will be introduced both in BTC stores and, later, as free-standing wellbeing centres.

Having already established a significant presence on the internet through the BTC consumer website and handbag.com, we have established a dedicated team to explore other commercially attractive e-commerce activities. We invested some £4m in internet and alternative shopping channel developments during the year. The first initiative to apply the new technology to complement and enhance BTC's existing retail offer is Boots e-photo service, launched in June 2000.

We invested £7m in exploring opportunities for Boots to become a financial services provider before deciding not to run such services in-house. Instead, we opted for the development, in conjunction with Egg, of the Advantage Credit Card which will become available in September 2000.

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Halfords
5 Wide choice and free fitting helped boost car audio sales by a further 24%.
6 Customers responded very positively to new formats with stronger appeal to car and cycle enthusiasts.
7 Halfords has the UK's largest full service garage chain.
8 The Ripspeed brand, acquired in 1998, helped raise accessory and enhancement sales by 5%.

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Boots Properties
9 The new Boots store in York, one of 18 edge of town sites secured for BTC during the year.

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Halfords

Managing director	Rod Scribbins
Sales £m	492.6 (53 weeks)
Increase %	7.7
Profit £m (before exceptionals)	45.2 (53 weeks)
Increase %	12.2
Sales split	**%**
Auto accessories, tools and audio	50.4
Cycles and accessories	23.4
Car parts	15.1
Garage servicing	11.1

Sales and profit once again grew strongly. The overall result was boosted slightly by a 53-week trading year but, excluding this benefit, like for like sales growth was 5%. Gross margin fell by 0.3 percentage points as a result of changes in the product mix. Profit before QUEST costs of £1m rose to £46.2m despite the cost of converting some stores to test new trading formats: refitting costs and disruption reduced profit by some £2m. Underlying profit growth, excluding QUEST, non-recurring items and the extra week of trading, was 12.5%. The garage business remained profitable, with like for like sales up 4.3%.

Strategy Halfords is accelerating its development to make the most of its unique advantages: greater scale than competitors and a trusted brand standing for good range and value. It continues to relocate from high street shops to superstores, and to expand its own brand ranges, which contribute significantly to strong margins. After extensive research and trials it is introducing new store formats to increase its attractiveness to higher-spending auto and cycle enthusiasts.

Sales Strong overall performance was led by another excellent year for in-car audio – up 24%, with CD equipment sales up 57%. Halfords extensive range and free fitting service continued to drive gains in market share. Despite weak conditions in the new and second-hand car market, car accessories and enhancement grew 5% – boosted by the new Ripspeed range and benefiting from lessons learned in trials of the new trading format.

Cycle sales grew 12%, further increasing Halfords share of a generally flat market. A major factor was success in introducing new technology such as full suspension bikes to the market at affordable prices. Sales also benefited from the improvement in store environments and the recruitment of more specialist staff. Halfords is gaining credibility with higher spending enthusiasts by offering a greater range of leading cycle brands including GT, one of the world's biggest premium brands, and with the introduction of the new Bike Hut concept.

Own brand sales continued to grow well, rising from 47% to 48% of total sales. However, given the strategy of appealing to enthusiasts through range extensions and new brands, further growth in own brand penetration is not expected.

New formats and products During the year Halfords trialled a selection of new store formats at 16 stores. Aimed at all customer groups but particularly geared to high-spending cycle and car enthusiasts, these involve extended ranges of specialised merchandise. Customer reaction has been very positive, particularly from enthusiasts, and sales increases have exceeded expectations. Based on the trial results, Halfords has selected the optimal approach – a single format with variations for different sizes.

Stores Four new superstores opened during the year, bringing the total to 317. The closure of another 15 high street stores reduced the remaining total to 80. Now 80% of the Halfords portfolio is in superstores, generating 91% of total retail sales. Halfords actively manages its entire portfolio and reduced the size of several superstores during the year – saving rent without sacrificing sales. It also opened 12 small stores in Granada motorway service areas; their performance is gathering momentum but is not yet up to expectations.

Outlook Underlying sales and profit growth will continue this year, supported by a new TV advertising campaign in the first half. Halfords is working on internet projects tailored to the interests of specific interest groups, including two-wheel and auto enthusiasts.

Having established the merits of its new trading format for the future, Halfords will invest significantly this year in rolling it out. While adding substantially to shareholder value, this will have a short term adverse impact on profits. About 35 stores in the Midlands are being converted to the new format. In addition, 14 new superstores are planned for 2000/01, many in the new format.

Boots Properties

Managing director	Ian Webster
Sales £m	139.5
Increase %	44.9
Profit £m (before exceptionals)	62.3
Decrease %	(4.4)
Store portfolio	
Single units	576
Multi-tenanted properties	38
www.bootsprop.com	

Turnover rose nearly 45% to £139.5m, largely due to the sale in the first half of The Land of the Prince Bishops shopping centre development in Durham. Although real income increased slightly, operating profit fell to £62.3m, largely as a result of an additional £2.1m depreciation on shop properties as required by Financial Reporting Standard 15. Free cash flow increased substantially to £100.1m, reflecting both the development sale in Durham and other value creating property disposals. Rents from third parties were up £0.8m to £13.3m, broadly in line with the previous year, and rents from

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BHI
2 Innovative new Nurofen presentations included Meltlets – easy to swallow without water.
3 Hermal launched Balneum Daily Care, an over the counter range of dry skin products.
4 Strepfen is a novel and effective treatment for severe sore throats without recourse to antibiotics.

3


Boots Properties
1 We also continue to invest in town centre sites, like the new Kendal store opened during the year.

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other group companies rose slightly to £81.1m.

Strategy Boots Properties owns and manages freeholds and leaseholds on over 630 of the group's units, and invests in the retail property market. It continues to focus its efforts on providing property solutions for group retail businesses. In the present climate of changing shopping patterns and behaviour, this involves continually reviewing the group-occupied portfolio to ensure optimum flexibility, as well as acquiring new sites and disposing of unwanted ones.

During the year Boots Properties secured 18 edge of town sites for BTC with open A1 consent. The strategy is to continue securing more edge of town sites for Boots retail businesses.

Sales In addition to the sale of The Land of the Prince Bishops shopping centre development in Durham for £45.1m, proceeds from other property disposals during the year amounted to £84.4m. This included £24.6m from the sale of the remaining Do It All and AG Stanley portfolios, £10.4m from the sale of a shopping centre in Daventry, a sale and leaseback deal of £14.8m on the Belfast BTC store and a number of other deals in the £1m to £5m range. The profit on these sales was £12.6m against book value and £17.7m against historical cost.

Boots Properties acquired five occupied retail warehouses from landlords and resized them to meet Halfords needs before executing sale and leaseback deals.

Free cash flow Free cash flow generation totalled £100.1m – significantly higher than in the previous year – driven by the sale of the development in Durham and the other property disposals listed above. The latter do not appear in the sales line but, importantly, generate both cash and shareholder value.

Investment Boots Properties continues to invest in high streets. For example, it enabled BTC to achieve much needed expansion in Oxford by assembling a site alongside the existing store. BTC opened the 50% increase in space, which has radically improved its representation, in June 2000.

In 1999 Boots Properties launched its website, which gives information on the people within the business and offers properties for sale and to let.

Outlook Boots Properties will continue to be a seller while yields tighten and values remain strong, and is still pursuing ways of maximising value and creating flexibility for group businesses.

Boots Healthcare International (BHI)

Managing director		Barry Clare
Sales £m		327.1
Increase %*		8.5
Profit £m (before exceptionals)**		24.5
Increase %*		66.7
Core brand sales	**£m**	**increase%***
Analgesics	77.0	23.7
Cough & cold	66.2	13.6
Skincare	110.3	3.4
www.nurofen.com		
www. strepsils.com		
www. skinexpert.net		

* comparable exchange rates
**before QUEST

Sales grew 8.5% at comparable exchange rates to £327.1m, making BHI one of Europe's fastest-growing self-medication businesses. Profit before QUEST and exceptional items rose 66.7% at comparable exchange rates to £24.5m despite a £1m adverse impact from the strong pound.

Strategy BHI sells in 130 countries, concentrating on three categories – analgesics, cough & cold and skincare – which together make up about half the over the counter (OTC) market. It maintains growth through constant product innovation, launches in new geographic markets, and acquisitions. It focuses increasingly on its core categories, which now account for over 80% of total sales.

Brand development BHI maintained investment in marketing and new product development at £97m, launching over 70 new products during the year. Investment will continue at about this level, becoming increasingly productive as sales grow.

Analgesics Sales grew 23.7% at comparable exchange rates as Nurofen established itself as one of the fastest-growing self-medication brands in Europe and Australasia. It is market leader in the UK, Israel and New Zealand, and sales have grown by over 20% annually in the past five years. The key to growth has been constant innovation, and there are now 14 Nurofen variants. New launches in 1999 included Nurofen for Children in Germany (reinforcing ibuprofen's safety credentials), Long Lasting for sustained pain relief and Gel Caps for faster absorption. Meltlets, an innovative new formulation launched in the UK in April 2000, are easy to swallow without water.

Cough & cold Sales grew 13.6% at comparable exchange rates, benefiting from the outbreak of flu in Western Europe. Zinc Defence, growing well in the UK, was launched in a further nine markets. Strepsils Cough lozenges are being rolled out after successful UK and New Zealand launches.

Strepfen, a new treatment initially available only on prescription in the UK, provides an innovative non-antibiotic therapy for severe sore throats. To speed the process of gaining approval for OTC sale, BHI is working with BTC to recruit patients. This is the first European pharmacy-based study for proving the safety of a prescription medicine in an OTC environment – a ground-breaking route that could create opportunities for Boots to use its expertise in helping other manufacturers to switch medicines more smartly to OTC status.

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BCM
5 Brand extensions boosted sales of the long-established E45 range, produced by BCM for BHI.
6 Nurofen sales benefited from new variants such as Gel Caps, developed to offer faster absorption.
7 BCM's sales to BHI were led by Nurofen, one of Europe's fastest-growing self-medication brands.
8 BCM develops some 1,500 new products a year, mainly for BTC.

8


Skincare Core skincare sales were £110.3m – up 3.4% at comparable exchange rates despite difficult market conditions, particularly in Germany where government healthcare reforms are restricting reimbursement. There were 33 new product launches in Europe, plus expansions of existing brands into Eastern Europe and Asia. Products launched since the acquisition of Lutsia and Hermal now account for close to 30% of Lutsia sales and 10% of Hermal sales. Of the main brands, E45 grew by 8%, Xeramance by 35% and Balneum by 4%.

Outlook In under ten years BHI has become one of Europe's top six OTC players and is still one of the fastest growing. It will continue to benefit as pressures on health services increase and consumers take more responsibility for their own healthcare. After entering Argentina in May 2000, BHI looks forward to building its presence in Latin America.

Boots Contract Manufacturing (BCM)

Managing director	John Watson
Sales £m	321.1
Increase %	3.6
Profit £m (before exceptionals)*	27.0
Increase %	11.1
Sales split	**%**
Boots The Chemists	43.0
Boots Healthcare International	17.2
Third party	39.8
www.bcm-specials.co.uk	

* before QUEST

New business with brand owners helped BCM to increase sales by 3.6% to £321.1m – an increase of 5.3% at comparable exchange rates. Profit before QUEST and exceptional items rose 11.1% to £27.0m. This reflected cost reductions from the restructuring programme, productivity gains of some 5% and improvements in supply chain processes including purchasing.

Strategy BCM has two customer groups: internal businesses (BTC, BHI and BRI) and third party customers in the UK and Continental Europe. In partnership with the Boots businesses it develops and produces innovative products that differentiate them from competitors; and it is building valuable third party business with major European and multinational companies that require the highest standards of service and quality. To achieve further profitable growth BCM is simplifying the business, improving supply chain effectiveness and finding new ways to cut costs. It is building a more agile and enterprising culture aimed at maximising value through committed people working together in the development and manufacture of health and beauty products.

Sales UK sales rose 5.2% to £268.1m, benefiting from excellent growth in new business with brand owners and higher demand from BHI. Sales to BTC rose slightly despite further destocking.

The scale and quality of BCM's operation underpinned 13.9% growth in third party business to £69m. Sales to brand owners such as Schwarzkopf & Henkel and Oral B more than doubled, while demand for healthcare products grew almost 40%. Sales to BHI grew 7.1%, led by very strong demand for Nurofen. Sales to BTC benefited from the launch of the Botanics and Tricologie ranges, higher demand for vitamins and No7 cosmetics, and the relaunch of the Soltan suncare range.

Product development Highlights included 200 formulations for the relaunch of Botanics, Liz Collinge cosmetics, the innovative Tricologie haircare range and the reformulation and repackaging of products for BRI's entry into Taiwan. BRI is a valuable source of new business, although sales were down after the previous year's significant stockbuilding for Japan.

International companies The 1.9% overall sales increase to £64m represented growth of 7.7% at comparable exchange rates, although profit fell to £2.2m. In France both BCM Cosmétique and Roval increased sales, but profits were squeezed by pricing pressures in a competitive market. In Germany BCM Kosmetik saw both sales and profit fall in what continues to be a tough market, but the current order book is strong and some recovery is expected this year.

Investment Capital spending again fell markedly after the heavy investment of recent years. Investment of £16.7m was focused on increasing capacity to support growth, improving customer service, and a new IT infrastructure which is already reducing stockholding and improving cash flow. New warehousing in France and the UK will further improve customer service.

Outlook After its best ever second half, BCM has made a good start to the new year and will benefit from continuing cost reductions. Despite further growth in BHI and proprietary toiletries orders, UK sales are likely to remain flat; but the overseas companies expect some improvement.

People, community and environment

A major business like Boots cannot stand aloof from the communities it serves. Our shareholders, customers, staff and suppliers all have an interest in social and environmental wellbeing. We fully accept our share of responsibility, which we see as integral to the way we conduct our business.

People Our long term success depends fundamentally on our ability to attract, retain and develop the best people in our sector at all levels and to create an environment which allows them to fulfil their potential. This is the goal that underlies all our human resources strategies. Our commitment to involving staff, communicating openly with them and aligning their goals with those of the business is essential to our competitiveness and long term creation of shareholder value.

The personnel director is a member of the main board, to ensure that people implications are considered in all strategy and decision making. We have long standing union recognition and partnerships with USDAW and Engineering Trade Unions. All businesses have their own staff councils which contribute to a combined group council. Our commitment to equal opportunities, family-friendly policies, training and career development is recognised across the group. BTC, BCM and Boots Properties are accredited Investors In People.

Community Boots plays an active part in community initiatives both in the Nottinghamshire area and across the UK. MORI research continues to show that UK consumers see Boots as a leader in corporate social responsibility, and we are members of the PerCent Club, which benchmarks corporate community investment in the UK. Our Seeing is Believing programme highlights current social issues to groups of senior managers, showing them at first hand projects ranging from an inner city nightshelter to the distribution of surplus merchandise to the community.

During the year our businesses contributed a total of over £4.2m to the community through charitable and educational donations, sponsorships and gifts in kind.

Team Challenges – in which teams of Boots staff work together on projects such as the refurbishment of buildings for local charities – help meet training and development needs while providing significant benefits to the community partners involved. Over 400 employees took part in Challenges, contributing an estimated 650 days of time.

Other highlights of the year included over 4,000 babies registered with local libraries since the launch of the Boots Books for Babies scheme; our appointment as Nottinghamshire's first corporate Wildlife Guardian and the Success For All volunteer tutoring scheme received a Programme Impact Endorsement Mark as part of Business in the Community's 1999 Awards of Excellence.

This year's Community Review is now available – call 0115 959 5797 for a copy – or view the social responsibility section of the corporate website at www.boots-plc.com.

Environment As a clear indication that we see the environment as a core business issue, this year sees the company's Environment Report cover the same period as the annual report and it will be available in time for the AGM. For a copy of this year's report, please call free on 0800 028 0367.

The environment section of the corporate website (www.boots-plc.com) contains downloadable versions of the reports and a wealth of additional information. This includes items such as the company's approach to the management of environmental issues, company position statements on specific topics, and responses to many frequently asked questions. Our website is now the primary source of up to date environmental information for the company.

We have made good overall progress during the year. Highlights include an improvement in both the company's energy efficiency up 10.2% and like for like carbon dioxide emissions down 4.4%; BCM's success in reducing waste discharged as effluent by more than 16%; BHI's packaging reduction initiatives; and BTC's award-winning waste management systems.

For direct access to the environmental section of our website, go to www.boots-plc.com/environment

→ Our governing objective is to maximise the value of the company for the benefit of its shareholders

Performance We seek to achieve our governing objective by a decision making process which targets value maximising strategies for the company. We then invest in our current and new business streams in order to generate strong cash flows and superior long term returns.

Shareholder return In our opinion the best overall measure of group performance is total return to shareholders. This measure has been successfully utilised within the group for over ten years. It is calculated from the movement in the share price and the value of dividends as if reinvested in the company when paid. We monitor our performance on a rolling five year basis against ten peer companies. From time to time changes in our competitors cause us to review the peer group. This year Alliance UniChem replaced Sears. This year was a turbulent one on the stock market, with our share price under significant downward pressure, dropping from 895p at the end of last year to 537p on 31st March 2000. The price ranged from a high of 884p to a low of 457p.

These pressures on share price, including the switch away from the more traditional 'value' shares into new technology during the year, have also depressed our peer companies' share prices. The returns for the current year are shown in the following table. We ended the year at number six in the table with a return in the five year period of 33.6%.

Shareholder returns of The Boots Company compared with peer companies
Returns are calculated using average listed share prices over the three months to 31st March

Five years to 31st March 2000		**%**
1	SmithKline Beecham	246.8
2	Kingfisher	176.4
3	Tesco	145.0
4	Alliance UniChem	71.3
5	Smith & Nephew	39.3
6	**Boots**	**33.6**
7	Reckitt Benckiser	9.9
8	W H Smith	(1.1)
9	J Sainsbury	(15.2)
10	GUS	(16.0)
11	Marks & Spencer	(20.8)

Long term bonuses for the executive directors and other senior management are also tied to total shareholder return measured on a rolling four year basis.

Dividend The board has proposed a final dividend of 17.7p. This brings the total dividend for the year to 25.2p, an increase of 5.9% over last year.

Economic profit We determine the level of investment in our businesses not by sales growth or operating profits, but by 'economic profit'. This is the present value return we expect to make for shareholders after charging an appropriate amount for the capital invested. Currently, this cost of capital for most of the group is 8.5%, after tax and after discounting separately for specific risk.

Turnover Sales from continuing businesses, including joint ventures' turnover of £2.4m, increased by 5.6% to £5,189.4m.

Profit Operating profit from continuing operations before qualifying employee share ownership trust (QUEST) costs, exceptional items and share of operating loss of joint ventures increased by 3.9% (2.1% after charging QUEST) to £583.1m (£573.3m after QUEST). Profit before tax, exceptionals and QUEST rose 4.8% (1.8% after QUEST) to £587.4m (£570.8m after QUEST).

Exchange impact Exchange rate movements during the year adversely impacted operating profits by around £2m.

Interest Net interest receivable for the year was £5.9m compared with £1.8m net payable in 1999, largely as a result of a £192m improvement in net cash flow compared to last year.

Taxation The effective tax rate, before exceptional items, for the group was 29.6%, compared with 30.3% last year.

Cash flow The maximisation of cash flow is the key factor in value creation and cash management is one of the key performance measures used by the company to monitor its businesses, and to determine the level of reward to senior management through the short term bonus scheme. The following summary of cash flow demonstrates the company's ability consistently to generate a healthy free cash flow that is defined as the cash flow available to all the providers of capital.

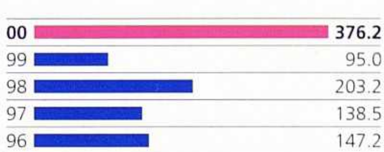
Summary of cash flows	**£m 2000**	£m 1999
Operating cash flows before exceptionals	**773**	616
Exceptional operating cash flows	**(19)**	(14)
Acquisition/disposal of businesses	**(3)**	55
Purchase of fixed assets	**(266)**	(372)
Purchase of own shares	**(58)**	(160)
Disposal of fixed assets	**93**	74
Disposal of own shares	**10**	–
Taxation paid	**(154)**	(112)
Other items	**–**	8
Free cash flow	**376**	95
Repurchase of shares	**(95)**	–
Dividends paid	**(216)**	(207)
Net interest	**(10)**	(25)
Net cash flow	**55**	(137)

The group generated cash from operating activities before exceptionals of £773m, an increase of £157m on last year.

Following last year's high levels of investment in the business, and particularly record levels of spend on BTC stores, investment in fixed assets was down by £106m to £266m. £95m was spent on repurchasing shares this year but £97m less was spent on purchasing shares for the QUEST following last year's £148m expenditure on acquiring the backlog of shares for the trust.

The following chart shows the amounts of free cash flow generated by the group for each of the last five years.

Cash generation £m



Structure There were no significant acquisitions or disposals of businesses during the year.

QUEST The QUEST was established by the company in 1999 in connection with its existing SAYE share scheme, which is open to all UK employees. The QUEST enables the company to use existing shares to satisfy options. This is more tax efficient than issuing new shares, and avoids diluting existing shareholdings.

However, using existing shares requires the cost of the SAYE scheme to be charged against profits. If new shares are used a charge against profits is avoided. Most other companies therefore issue new shares. Accounting standards are gradually moving towards ending this anomaly.

The QUEST has bought in the market 5.7m shares (1999 16.9m) at an average price of 783p (1999 909p) to satisfy options granted during the year (the 1999 purchase covered options granted that year and all the outstanding options relating to prior years). The purchase of shares resulted in a charge to operating profit of £9.8m that has been charged to the businesses (1999 £59.7m to establish the QUEST was treated as an exceptional item at the group level). These costs are the difference between the market value of the shares bought by the QUEST and the option price payable by employees. In addition interest of £6.8m on borrowings to finance the shares in the QUEST has also been charged to the businesses.

Pensions The result of the actuarial valuation, based on market values of liabilities and assets, at 1st April 1998, is shown in note 26. While this shows that accrued liabilities were covered 1.2 times by the market value of assets, as a matter of prudence, the company has recommenced contributions to the pension scheme at the rate of 10% of pensionable salaries. This recognises that the substantial pension scheme surpluses previously generated by the fund are expected to be progressively eliminated by the year 2002. The cash contributions, which recommenced in November 1999, will amount to around £50m a year. We have included a charge of £5m in the profit and loss account for the year. The next actuarial valuation is on 1st April 2001.

Treasury policy and controls Boots has substantial borrowing capacity due to its strong credit ratings.

Treasury focus is primarily on the balance sheet, including items such as property lease commitments, which are economic assets and liabilities, but which current accounting convention does not recognise.

Note 19 on pages 63 and 64 shows further details under the disclosure requirements of Financial Reporting Standard (FRS) 13 'Derivates and Other Financial Instruments: Disclosures'.

Controls Controls seek to prevent fraud and other unauthorised transactions as well as counterparty risk. The effective operation of key controls is reviewed annually by the group's risk assurance and audit staff. Strict guidelines for cash investments apply worldwide, with cash held only in high quality bank deposits and commercial paper. Swaps, which the company uses to manage interest rates, are strictly controlled and monitored, with each transaction specifically authorised by the deputy chief executive and finance director.

Liquidity and funding The company has good access to the capital markets due to its strong credit ratings from Moody's and Standard and Poor's (P1/A1 and A1/A+). It is policy to maintain credit ratings that give good access to the capital markets.

The group has ten identical credit facilities, totalling £600m, which mature in 2004. These facilities remained undrawn during the year, with short term needs being met from uncommitted bank lines.

The proceeds from the £300m ten year eurobond that closed in May 1999 were used partly to refinance short term debt.

Lease liabilities In common with other UK retailers, the group has liabilities through its obligations to pay rents under property leases. Rent commitments on property leases are the economic equivalent of fixed rate debt. The following table shows the capitalised value of the committed after tax rents payable at 31st March 2000, excluding any likely increase in rents at rent reviews, discounted at the group's after tax cost of borrowing of 4.5% (6.4% gross).

Maturity of commitment	Rent commitment at 31st March 2000 £m	Capitalised value £m
1 to 10 years	54.4	186
10 to 20 years	102.1	773
20 to 30 years	25.0	248
Over 30 years	5.2	70
Total	186.7	1,277

The split of rent payable at the year end for businesses is:

	Rent payable £m	%
Boots The Chemists	125.2	67
Halfords	46.7	25
Other	14.8	8
Total	186.7	100

Interest Policy is to maintain a balance between debt, including leases, at fixed and floating rates, but we do not hedge against the impact of short term interest rate movements.

The total value of lease-related swaps at the year end was £1.1bn, with an average maturity of eight years and a weighted average fixed rate receipt of 7.4%.

The company's other fixed rate borrowings have all been swapped into floating rate.

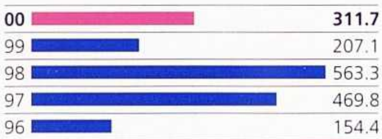
Given the overall cash, borrowing and interest rate swap position, each 1% increase or decrease in short term interest rate changes the net interest figure by about £13m.

Currency exposure The company has no currency debt to match the value of its overseas businesses. When the cash flows from these businesses become more substantial, policy will be reviewed. Modest sales and purchases are made from the UK in a range of currencies but hedging them into sterling does not add value.

Capital structure Value can be achieved for shareholders by managing capital structure. Increasing debt lowers the after tax cost of capital, and since 1994 we have exploited this by distributing £1.3bn to shareholders in the form of share repurchases and special dividends in addition to normal dividend payments. A balance has to be struck, however, between the advantages of debt and the resulting reduction in financial flexibility. As with other financial assets, we do not take positions on the company's share price, which is determined by the market with access to all relevant information. Our wish to repurchase shares is driven only by the intent to maintain an efficient capital structure.

In September 1999, we announced our intention to use powers granted at the AGM to buy back up to 91.5m shares, about 10% of the issued share capital. By the year end £95.4m had been spent buying 16.0 million shares, at a weighted average price of 593p. The continued decline in the share price since announcing the repurchase programme has meant that our financial flexibility has declined. We have therefore made only limited purchases.

Payment to shareholders £m



2000 and 1997 include share repurchases of £95.4m and £300m respectively. 1998 includes the special dividend of £400.5m.

Year 2000 Our comprehensive work programme to achieve Year 2000 compliance was completed on schedule and the date transition was accomplished successfully with no material errors.

The project was completed within the original budget estimate of £14m and we expect no further costs.

The success of this project was assured by thorough planning, a timely start and rigorous project management.

Economic and Monetary Union (EMU) We continue to prepare for EMU in our businesses in the first wave countries and to handle a low level of euro transactions. This reflects the experience of the majority of European businesses. We are in a position to deal with increasing transaction volumes as we move closer to the introduction of notes and coins.

The continued action and planning across all businesses has ensured that we are on target with our euro preparations. Many of our businesses are now able to report internally in euros and our retail customers in the Republic of Ireland can already see the euro equivalent total on till receipts. Further work on the introduction of dual pricing in the Republic of Ireland and the Netherlands will continue during 2000/01. Detailed work following the initial impact analysis has confirmed the initial cost predictions of around 1% of turnover, which remains in line with predictions from other retailers.

Planning in the UK for EMU remains difficult due to the continued uncertainty over the question of UK entry. The Government's Second National Changeover Plan outlines the next steps for overall UK preparation. In particular we support the core principles for the draft Consumers Code of Practice and the moves to address the logistical challenges from the first wave will be key to a smooth UK transition both for our business and for the UK Government. We welcome the recognition of this issue in the Plan.

Accounting standards The company fully supports the objectives of the Accounting Standards Board (ASB) in its aim to improve the quality and consistency of financial statements.

Current UK accounting ignores the material economic costs and liabilities of operating leases, pensions and employee share options, all of which the group's internal management accounting attempts to recognise. We are pleased to note that each of these is currently under consideration by the ASB, albeit at different stages of development. We have made robust representations to the ASB during the year on accounting for both pensions and leases.

During the year the ASB issued Financial Reporting Standards (FRS) 15 'Tangible Fixed Assets' and FRS16 'Current Tax'. The effects of these have been reflected in this year's accounts and include an additional £2.1m depreciation charge this year on freehold shop properties.

David Thompson
Deputy Chief Executive and
Finance Director

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1 Lord Blyth of Rowington, 60, chairman. Director since 1987, when he joined Boots as chief executive. He is a non-executive director of Diageo and a senior adviser to Greenhill & Co. Formerly group managing director of Plessey and head of defence sales at the Ministry of Defence.

2 Steve Russell, 55, chief executive since April 2000. He is also a non-executive director of Woolwich. He joined Boots in 1967 and was formerly managing director of Boots The Chemists.

3 David Thompson, 57, deputy chief executive since April 2000 and finance director since 1990. He is also a non-executive director of Cadbury Schweppes. He joined Boots in 1966, was appointed finance director of Retail Division in 1980 and group financial controller in 1989. He is a chartered accountant.

4 Mike Ruddell, 56, personnel director. Director since 1984. He joined Boots in 1966, and has been director responsible for marketing and merchandise in Boots The Chemists and managing director of Boots Properties.

5 John Watson, 58, managing director, Boots Contract Manufacturing. Director since 1996. He joined Boots in 1967 and was director of personnel, Pharmaceuticals Division, before being appointed to his present position in 1991. He is also chairman of Boots Pensions Limited.

6 Barry Clare, 47, managing director, Boots Healthcare International. Appointed 1999. He joined Boots in 1991 to lead the creation and development of the international consumer healthcare business, after gaining strategic marketing experience at Procter & Gamble and Diversey Corporation.

7 Ken Piggott, 51, managing director of Boots The Chemists since April 2000. He joined Boots in 1970 and was appointed merchandise controller for the beauty and fashion department in 1983. On the creation of business centres in 1986, he became beauty business general manager, before becoming managing director of Childrens World, Do It All and Halfords successively.

***8 Sir Michael Angus**, 70, deputy chairman. Director since 1994. He is also chairman of Whitbread and deputy chairman of British Airways. He was formerly chairman of Unilever, president of the CBI and director of NatWest Group.

***9 Fiona Harrison**, 49, appointed 1994. A non-executive director of Scottish Media Group and Thorntons. A former director of Coats Viyella and chief executive of its Fashion Retail Division, which operates the Jaeger and Viyella retail chains. She was previously vice-president of Clairol, part of Bristol-Myers Squibb Company.

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***10 Sir Clive Whitmore GCB CVO**, 65, appointed 1994. A non-executive director of Morgan Crucible Company, Racal Electronics and N M Rothschild & Sons. He was formerly permanent secretary at the Ministry of Defence and then at the Home Office.

***11 Sir Peter Reynolds CBE**, 70, appointed 1986. Formerly chairman of Ranks Hovis McDougall, chairman of Pioneer Concrete Holdings, director of Pioneer International and Guardian Royal Exchange. He is a director of Avis Europe.

***12 Dr John Buchanan**, 56, appointed December 1997. Group chief financial officer and an executive director of BP Amoco. Formerly group treasurer and chief executive of BP Finance and chief operating officer of BP Chemicals. He is also a member of the Accounting Standards Board.

***13 John McGrath**, 61, appointed December 1997. Group chief executive of Diageo. He was group chief executive of Grand Metropolitan before GrandMet and Guinness merged in December 1997 to form Diageo. Previously chairman and chief executive of IDV, GrandMet's spirits and wines business. He is also chairman of the Scotch Whisky Association.

***14 Dr Martin Read**, 50, appointed 1999. Managing director and chief executive of Logica, one of the world's leading global IT solutions companies. Before taking over at Logica in 1993, he held a number of senior positions at GEC Marconi. He was appointed a non-executive director of British Airways in May 2000 and served as a non-executive director of Asda Group from 1996 to 1999.

***15 Sir Nigel Rudd**, 53, appointed December 1999. Chairman of Williams and non-executive chairman of Pilkington and Pendragon. He is also a non-executive director of Barclays.

***Non-executive director**

Contents

In June 1998, the Stock Exchange published a new listings rule together with related Principles of Good Governance and Code of Best Practice (the 'Combined Code') now adopted by the Financial Services Authority.

On 27th September 1999, the Institute of Chartered Accountants in England and Wales published 'Internal Control: Guidance for Directors on the Combined Code' (Turnbull guidance) to assist directors in complying with the internal control requirements of the Combined Code. Full compliance with the Turnbull guidance is expected for accounting periods ending on or after 23rd December 2000. However, to allow the necessary steps to be taken to adopt the Turnbull guidance transitional provisions apply for accounting periods ending on or after 23rd December 1999 and up to 22nd December 2000.

The board has reviewed the company's corporate governance policies and practice and fully complies with the provisions of the Combined Code except as follows:

- The board's policy is that the service contracts of executive directors appointed prior to 1st April 1999 should be subject to two years' notice of termination by the company and that directors appointed after that date should have a service contract terminable upon one year's notice by the company, such notice not to take effect until after the expiry of two years from the date of appointment of the director. The board remuneration committee is keeping the matter under review.
- The board's report to shareholders on internal controls relates primarily to financial controls, as allowed by the transitional provisions. Arrangements are well advanced to ensure full compliance with the Turnbull requirements during the next accounting period ending on 31st March 2001.

Board composition

Details of the board of directors are shown on pages 26 and 27 and in the directors' report on page 41. During the year there was a clear division of responsibilities at the head of the company, with Lord Blyth as chairman, the vice chairman Sir Michael Angus chairing the board remuneration committee and nominations committee and Mr S G Russell and Mr D A R Thompson being joint group managing directors. On 1st April 2000 Mr S G Russell became chief executive of the company. Lord Blyth remains as chairman but will retire as a director on 31st July 2000, and will be succeeded as chairman by Mr J B McGrath. Mr J B McGrath is and will remain a non-executive director. Sir Peter Reynolds is retiring as a director of the company after the annual general meeting on 27th July 2000. After these changes the board will comprise six executive directors and seven non-executive directors.

The board considers all of its non-executive directors to be independent, Sir Michael Angus being the senior independent director. Sir Michael is also the vice-chairman of the board and has agreed to seek reappointment in order to deputise when necessary for Mr J B McGrath while Mr J B McGrath remains as chief executive of Diageo, a position he will relinquish on 31st December 2000.

The company considers an independent director is one who has no relationship with any party which may undermine independence and who is not dependent on the company for his or her primary source of income or paid by the company in any capacity other than a non-executive director, was not previously a senior manager of the company and does not participate in the company's incentive bonus schemes or pension schemes.

Conduct of board meetings

The board normally has ten regular meetings in the year plus two further meetings to deal specifically with full year and half year results. Strategy meetings are convened as required. A schedule of powers reserved to the board is maintained comprising key events and decisions.

For all board meetings an agenda is established. For regular meetings this generally comprises reports from the chief executive, finance director, business managing directors and the personnel director, major items of strategic expenditure to be approved and other significant policy issues. The board is also notified of any dealings by directors and senior managers in the shares of the company. Written reports are provided to the directors in advance of the board meeting. In addition the board considers at least annually the strategic plans of the group and individual businesses and is provided with other information as requested. From time to time directors are given the opportunity to receive presentations from management about key areas of the company's operations.

Full year and interim results are reviewed by the board audit committee and approved by the board prior to publication. Other price sensitive announcements may be published under the authority of a director.

In the furtherance of their duties, the directors have full access to the services of the company secretary and may take independent professional advice, at cost to the company, subject to a limit of £25,000 and prior notification to the chairman of the audit committee.

The company has a policy of providing corporate governance training for directors on appointment, if this is their first appointment to a public limited company board.

Board committees

There are four principal board committees, all of which operate within written terms of reference. Details of the present composition and the main responsibilities of these committees are as follows:

Board nominations committee

Sir Michael Angus (chairman)
Lord Blyth of Rowington
Dr J G S Buchanan
F M Harrison
J B McGrath
Dr M P Read
Sir Peter Reynolds
Sir Nigel Rudd
Sir Clive Whitmore

The board nominations committee meets as dictated by circumstances and met five times during the year.

The main responsibility of the board nominations committee is to consider and make recommendations to the board about the appointment of directors, the standing for reappointment of directors and the structure and composition of the board generally.

Board audit committee
Dr J G S Buchanan (chairman)
F M Harrison
J B McGrath
Dr M P Read
Sir Peter Reynolds
Sir Nigel Rudd
Sir Clive Whitmore

The board audit committee met three times during the year.

The main responsibilities of the board audit committee are:
- to review and advise the board on the interim and annual financial statements.
- to review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response.
- to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal.
- to review the company's systems and practices for the identification and management of risk and to receive regular reports on risk assurance and audit matters.
- to monitor compliance with the company's policies to prevent illegal and questionable corporate conduct.
- to review the major findings of internal investigations.

The external auditors are appointed annually at the annual general meeting. The board audit committee considers the reappointment of the auditors and reports its findings to the board. The board audit committee periodically considers the performance, cost and independence of the external auditors, including a comparison of audit fees with those of other retail and FTSE100 companies and a review of the level of service provided by the audit team throughout the group.

The audit firm may perform non-audit work for the group but only when its tender is considered superior to that of other consultants. A schedule of this non-audit work is provided annually to the board audit committee.

Board remuneration committee
Sir Michael Angus (chairman)
Dr J G S Buchanan
F M Harrison
J B McGrath
Dr M P Read
Sir Peter Reynolds
Sir Nigel Rudd
Sir Clive Whitmore

The board remuneration committee met five times during the year.

The committee, having no members who are executive directors or who have personal financial interest in matters to be decided, is responsible to the board for determining the remuneration, terms and conditions and bonus schemes for the executive directors, having regard to performance. A report on the remuneration of directors appears on pages 32 to 37.

Board social responsibilities committee
Sir Clive Whitmore (chairman)
F M Harrison
M F Ruddell

The board social responsibilities committee met twice during the year.

The main responsibility of the board social responsibilities committee is to keep under review the company's policies and practices in the areas of social responsibility including those relating to health, safety, the environment, equal opportunities, race relations and employment of the disabled.

Investor relations
Communications with shareholders are given a high priority. A rolling programme of meetings between institutional shareholders and executive directors is held throughout the year, in addition to the annual and half year results presentations and the annual general meeting. In addition, a magazine for private investors is produced twice a year.

All members of the board usually attend the annual general meeting. A business presentation is given at the meeting, followed by a question and answer session. The notice of the meeting together with any related papers is sent to shareholders at least 20 working days before the meeting. Shareholders are given the opportunity to vote on each separate issue. Postal proxy votes will be counted and summary figures are announced after the vote on show of hands on each item.

Internal control

The directors are responsible for the group's system of internal control. These controls are established in order to safeguard the group's assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable. The directors recognise that any such system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Combined Code requires that directors' review the effectiveness of the group's system of internal controls. This requirement extends the directors' review to cover all controls including financial, operational, compliance and risk management. To help directors define the scope of this requirement, the Turnbull guidance was issued by the Institute of Chartered Accountants in England and Wales in September 1999.

The board fully supports the Turnbull guidance, and has reviewed its arrangements for risk management and internal control. A new approach to risk management has been approved and risk managers established in each business to support and act as focal points for monitoring the management action to mitigate business risk. Consequently a group risk assurance and audit function has been set up to provide assurance to the board that risk management practices, which are closely aligned to our business objectives, address the key risks faced by the company.

For the financial year ended 31st March 2000, the board has satisfied itself that there was in place an ongoing process for identifying, evaluating and managing significant risks throughout the group. Further the board has reviewed the effectiveness of the system of internal financial control in relation to the criteria described in 'Internal Control and Financial Reporting' issued by the Working Group on Internal Controls in December 1994.

The company has an established framework of internal financial controls, the key elements of which are as follows:

- Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The group has a formal and comprehensive process for the determination of business strategies and this process is co-ordinated and monitored by group headquarters. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.
- Business plans provide a framework from which performance commitments have been agreed between group headquarters and each business. These commitments incorporate financial and strategic targets against which business performance is monitored. This monitoring includes the examination of and changes to rolling annual and half year forecasts and monthly measurement of actual achievement against key performance targets and plans. These results are consolidated, appraised and communicated to the board.
- The company has clear requirements for the approval and control of expenditure. Strategic investment decisions involving both capital and revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Significant expenditure of this nature requires approval by a director or the board. Performance reviews are undertaken by the businesses on completion of significant investments. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.
- There are clear procedures for monitoring the system of internal financial control. The board audit committee meets three times a year and its responsibilities are outlined on page 30. It receives reports from the group risk assurance and audit function on the results of work carried out under an annual risk focused audit plan and from the external auditors. It also requests the attendance of business management, as required, to report on controls relating to specific business activity.

Group risk assurance and audit has facilitated the annual process whereby businesses provide certified statements of compliance with internal financial controls, which are supported by summaries of key control activities and an assessment of significant business risks, controls and resulting exposures.

Going concern

Having considered group cash flow forecasts and strategic plans, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

This report has been prepared in compliance with Schedule B of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

Remuneration policies

In determining remuneration policies, the board has followed the provisions set out in Schedule A of the Combined Code. It is the practice of the board to maintain contact where appropriate with its major shareholders about remuneration issues. Remuneration policies for the executive directors and the senior management team are aligned with the board's governing objective, which is to maximise the value of the company for the benefit of shareholders in terms of total shareholder return represented by share price movement and the value of dividends as if reinvested when paid. Executive bonuses are seen as a means of reinforcing this objective and rewarding executives for their achievement. Responsibilities of the remuneration committee and its membership are set out in the corporate governance statement on page 30.

Remuneration policies are based on the following foundations:

Pay levels Executive directors' salaries and non-executive directors' fees are positioned at competitive levels in the light of independent assessment of market practices. Bonus schemes provide an opportunity for executives to receive additional rewards if, and only if, business performance reaches specified objectives and targets.

Link with business strategy The way that performance is measured for executive directors flows from, and is consistent with, business strategy and therefore a significant element of an executive director's bonus is tied to generating long term returns for shareholders which compare well with those of other leading companies.

The role of equity Share ownership provides an effective way to align the interests of shareholders and executives. Therefore, half of an executive director's long term bonus is payable in shares of the company. The practice of granting executive share options ceased in 1995.

Directors' remuneration

Analysis of emoluments, long term bonuses and gains on share options are shown on pages 33 to 36. Details of shareholdings and outstanding share options are shown on page 36 and pension entitlements on page 37.

Components of emoluments

Salaries and fees Salaries of executive directors reflect the scope of, and changes in, their responsibilities and are reviewed annually by the remuneration committee with reference to external comparisons. The board sets the level of remuneration of the non-executive directors by reference to practice in other leading companies.

Short term executive bonus scheme This scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable forecasts derived at the beginning of the year from strategic plans.

During 1999/00, the performance criterion was profit after tax. A bonus of 10% of base salary was payable for performance at 95% of profit after tax target rising to 25% of salary for performance at target level and to a maximum of 50% when profit after tax was 110% of target. Performance against target during the year was such that a bonus equal to 19% was earned by executive directors.

Short term profit related bonus schemes Profit related bonus schemes cover various groups of staff, including executive directors. These schemes are based on performance against either group, or business unit, profit target as appropriate and there is a maximum payment of £6,000 to any individual.

Other benefits Staff, including executive directors, who have completed ten years' service are entitled to a long service payment. This is based upon the level of salary and the number of years' service, up to a maximum of £4,000 per annum. Payments under this scheme are being reduced gradually and will cease in the year 2001. Executive directors receive other benefits, including a company car, sick pay and holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies.

Analysis of individual directors' emoluments £000	Salaries and fees	Short term bonuses	Other benefits	Total 2000	Total 1999
Sir Michael Angus (deputy chairman)	**95**	–	–	**95**	113
Lord Blyth (chairman and highest paid director)	**630**	**125**	**17**	**772**	632
Dr J G S Buchanan	**30**	–	–	**30**	27
B Clare (from 1st April 1999)	**215**	**47**	**13**	**275**	–
Sir Peter Davis (retired on 21st January 2000)	**24**	–	–	**24**	27
F M Harrison	**30**	–	–	**30**	27
J B McGrath	**30**	–	–	**30**	27
Dr M P Read (from 23rd September 1999)	**16**	–	–	**16**	–
Sir Peter Reynolds	**30**	–	–	**30**	27
Sir Nigel Rudd (from 15th December 1999)	**9**	–	–	**9**	–
M F Ruddell	**275**	**58**	**15**	**348**	276
S G Russell	**375**	**71**	**16**	**462**	368
D A R Thompson	**375**	**77**	**17**	**469**	374
J J H Watson	**220**	**48**	**14**	**282**	228
Sir Clive Whitmore	**30**	–	–	**30**	27
R P Wilson (retired on 23rd July 1998)	–	–	–	–	8
	2,384	**426**	**92**	**2,902**	2,161

Long term bonus schemes The schemes provide a direct link between the pay of executive directors and the creation of value for shareholders. Company performance is measured over rolling four year cycles, in terms of total shareholder return (TSR) relative to a peer group of ten other leading companies.

During the cycle ended 31st March 2000 the chosen peer group was:

Great Universal Stores
Kingfisher
Marks & Spencer
Reckitt Benckiser
J Sainsbury
Sears
Smith & Nephew
SmithKline Beecham
Tesco
W H Smith

The peer group is reviewed before each performance cycle to maintain its relevance.

For the four year cycle which ended on 31st March 2000 the amount of bonus depended upon the company's comparative performance against its peer group on the following scale:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
Bonus % of average annual salary	90	90	90	65	55	45	35	25	Nil	Nil	Nil

For the cycles which commenced in April 1997 and April 1998 there will be nil bonus if the position in the above league table is eighth or lower.

For the above scheme, one half of any bonus earned is paid in cash after the end of each performance cycle. The value of the remaining half is converted into an equivalent number of shares in the company in respect of which the executive director will have conditional rights. The number of shares is calculated by dividing half of the value of the long term bonus by the quotation for a share as derived from the Daily Official List of the London Stock Exchange on the date for payment of the cash proportion (in 2000, being 20th June).

For the four year cycles that commenced on or after April 1999 a new scheme has been approved. A maximum potential bonus award (MPBA) is calculated for executive directors by multiplying the basic annual salary at the beginning of the cycle by a factor of 125%. The MPBA is then expressed in share units using the average share price over the previous three months. At the end of the performance cycle a percentage of the MPBA is gained based on the TSR performance against a peer group of ten other leading companies. The scale applied is:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
% of MPBA gained	100	80	64	48	36	24	Nil	Nil	Nil	Nil	Nil

The value of the award is based on share price movement over the four years. For this new scheme, one half of the award is paid in cash after the end of each performance cycle and one half in shares. The value of the cash bonus is calculated by multiplying one half of the number of earned share units by the average share price over the last three months of the performance cycle, as derived from the Daily Official List of the London Stock Exchange.

For the above schemes the executive director will normally become entitled to receive shares only after remaining employed for a further three years (two years for the new scheme commencing April 1999). If a director leaves the company during this period, except in the case of retirement, disability or death, his conditional entitlement to those shares will lapse.

In respect of the four year period to 31st March 2000, the company achieved position five in the league table referred to on page 34. Accordingly the long term bonus amounts earned in respect of that period by executive directors, including amounts relating to periods of service before appointment to the board, were as follows:

£000	Cash	Value of vested shares	Total 2000	Total 1999
Lord Blyth	**155**	–	**155**	170
B Clare	**38**	–	**38**	–
M F Ruddell	**68**	–	**68**	74
S G Russell	**87**	–	**87**	87
D A R Thompson	**88**	–	**88**	93
J J H Watson	**51**	–	**51**	49
	487	–	**487**	473

Each executive director will also be awarded conditional rights to receive ordinary shares in the company having a market value on 20th June 2000 equivalent to the cash bonus shown above. The director will normally become entitled to receive those shares in June 2003 if the conditions are satisfied. There were no shares that vested during the year.

Details of the numbers of shares which have been conditionally awarded during the year under the long term bonus scheme for the cycle which was completed at the end of the previous financial year and the cumulative conditional entitlement are shown below:

	Conditional entitlement 2000	Conditional entitlement 1999	Conditional entitlement 1998	Cumulative total
Lord Blyth	**21,992**	15,956	22,263	60,211
B Clare	**4,621**	3,221	4,190	12,032*
M F Ruddell	**9,552**	6,991	9,525	26,068
S G Russell	**11,200**	7,652	9,570	28,422
D A R Thompson	**12,072**	8,538	11,475	32,085
J J H Watson	**6,377**	4,242	4,876	15,495
	65,814	46,600	61,899	174,313

*B Clare's cumulative entitlement accrued before he was appointed to the board on 1st April 1999.

Gains on share options

Details of SAYE share options are shown below. Gains on share options represent the number of shares under options which have been exercised, valued at the difference between the market price at the date of exercise and the exercise price paid.

Details of gains on share options exercised during the year are as follows:

	Exercise price	Number of shares	Market price at date of exercise	Gain 2000 £000	Gain 1999 £000
Lord Blyth				–	13
S G Russell	**421p**	**4,097**	**726p**	**12**	–
Total				**12**	13

Directors' shareholdings and share options

The beneficial interests of the directors in office at 31st March 2000 and their families in the share capital of the company at 31st March 2000 are shown below. The company's register of directors' interests, which is open to inspection, contains full details of directors' interests in the company's shares.

Shareholdings	Ordinary shares 2000	Ordinary shares 1999
Sir Michael Angus	**3,673**	3,348
Lord Blyth	**302,906**	292,338
Dr J G S Buchanan	**2,000**	1,000
B Clare	**5,658**	5,658*
F M Harrison	**3,061**	3,061
J B McGrath	**2,611**	2,519
Dr M P Read	**3,500**	–*
Sir Peter Reynolds	**3,609**	3,609
Sir Nigel Rudd	**2,000**	–*
M F Ruddell	**56,571**	52,382
S G Russell	**50,551**	46,434
D A R Thompson	**79,177**	79,123
J J H Watson	**52,393**	52,393
Sir Clive Whitmore	**1,592**	1,592

*at date of appointment

In addition, Sir Peter Reynolds has a non-beneficial interest in 1,300 (1999 1,300) ordinary shares. Each executive director was also deemed, as a potential beneficiary, to have an interest in the 2,402,413 ordinary shares of the company held by Boots ESOP Trust Ltd, on behalf of Boots Employee Trust, established to facilitate the operation of the company's executive bonus schemes and 20,119,540 ordinary shares of the company held by Boots (QUEST) Trustee Limited, on behalf of Boots Qualifying Employee Share Trust, established in connection with the company's UK all-employee SAYE Share Option Scheme. No director holds any loan capital. The personal shareholdings of directors in office at 31st March 2000 remain unchanged on 31st May 2000, but the number of shares held by Boots (QUEST) Trustee Limited has reduced, thereby reducing directors' deemed interest.

Share options

An analysis of the number of outstanding directors' share options at each exercise price is as follows:

Under SAYE scheme	410p	485p	588p	808p	624p	2000 Total	1999 Total
Lord Blyth	**841**	–	–	**853**	–	**1,694**	1,694
B Clare	–	**3,216**	–	–	–	**3,216**	3,216*
M F Ruddell	**841**	–	**663**	**482**	–	**1,986**	1,986
S G Russell	–	–	–	–	**2,704**	**2,704**	4,097
D A R Thompson	–	**1,422**	**1,760**	–	–	**3,182**	3,182
J J H Watson	–	**3,556**	–	–	–	**3,556**	3,556

*at date of appointment

During the year Mr S G Russell exercised SAYE options in respect of 4,097 shares and SAYE options on a further 2,704 shares were granted to him.

No executive options are held by directors.

Information on the company's SAYE share option scheme, including dates from when options are exercisable and expiry dates, is shown in note 22. The market price of the company's shares at 31st March 2000 was 537p and the range of market prices during the year was 457p to 884p.

Directors' interests in share options on 31st May 2000 remain unchanged.

Pension entitlement

All executive directors in office at 31st March 2000 receive pension entitlements from the company's principal UK defined benefit pension scheme, referred to in note 26, and supplementary pension arrangements which provide additional benefits aimed at producing a pension of two-thirds final base salary at normal retirement age. Non-executive directors are not members of the pension scheme. There are no money purchase schemes. Pension entitlement is calculated only on the salary element of remuneration. The chairman is entitled to the same level of pension benefits enjoyed by other executive directors despite his shorter service but after adjusting for pensions arising from earlier employment.

Details of pensions earned by the executive directors in office at 31st March 2000 are shown below:

	Age at 31st March 2000	Directors' contributions during the year £000	Increase in accrued pension entitlement during the year £000	Total accrued pension entitlement at 31st March 2000 £000
Lord Blyth (chairman and highest paid director)	59	30	54	387
B Clare	47	10	14	57
M F Ruddell	56	13	15	164
S G Russell	55	18	19	213
D A R Thompson	57	18	21	231
J J H Watson	58	10	10	140

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. No account is taken of any retained benefits from previous employments which will act to reduce the benefits shown. The increase in accrued pension during the year is after deducting the increase due to inflation on the previous year's accrued pension. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

The normal retirement age is 60. Early retirement is available subject to Trustee consent and a reduction in the accrued pension. Under the current early retirement terms the pension can be drawn from age 59 without reduction.

On death after retirement spouses' pensions of two-thirds of members' pensions and children's pensions of two-ninths of members' pensions for up to three dependent children are payable (subject to Inland Revenue limits).

Pensions in payment are guaranteed to be increased annually by 5% or the increase in the Index of Retail Prices (RPI) if less. Additional increases may be granted at the discretion of the Trustees and subject to the consent of the company.

Any transfer value calculations would make allowance for discretionary benefits including pension increases and early retirement.

Contracts of service

Lord Blyth will retire as a director on 31st July 2000. Mr J B McGrath will succeed him as chairman.

The current chairman has a fixed term service contract with the company which expired at normal retirement age, 60, on 8th May 2000. None of the non-executive directors has a service contract, including Sir Michael Angus, Mr J B McGrath, Dr M P Read and Sir Nigel Rudd, who are standing for reappointment as directors at the annual general meeting.

Mr B Clare's service contract is terminable by the company on one year's notice. Mr K S Piggott who was appointed on 1st April 2000 also has a service contract which is terminable by the company on one year's notice, such notice not to take effect until after the expiry of two years from the date of his appointment. Each of the other executive directors has a service contract which is terminable by the company on two years' notice. Mr J J H Watson and Mr K S Piggott are standing for reappointment at the annual general meeting. All such contracts terminate when the director in question reaches the age of 60. The remuneration committee considers that it is appropriate for executive directors who were appointed prior to 1st April 1999 to have a service contract providing for two years' notice having regard to their seniority and value to the company and the generally prevailing practice among comparable companies. If any service contract were to be terminated by the company giving less than the contractual period of notice, the requirement for the director to mitigate his loss would be taken into account in determining any resulting compensation.

It is recognised that directors may be invited to become non-executive directors of other companies and that the additional experience and knowledge that this brings will benefit the company. Accordingly, the policy is to allow executive directors to accept up to two such appointments where no conflict of interest arises, and to retain the fees received.

38 Directors' responsibilities statement

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the profit or loss for the financial year and of the state of affairs of the company and the group at the end of that period. The directors are of the opinion that suitable accounting policies have been used and applied consistently, applicable accounting standards have been followed, and reasonable and prudent judgements and estimates have been made. The financial statements have been prepared on a going concern basis. The directors have a responsibility to ensure that the company and its subsidiaries have suitable internal controls for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps that are reasonably open to them for safeguarding the assets of the group, and for preventing and detecting fraud and other irregularities.

Report of the Auditors to the members of The Boots Company PLC
We have audited the financial statements on pages 42 to 71.

Respective responsibilities of directors and auditors The directors are responsible for preparing the Annual Report. As described on page 38, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanation we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 29 to 31 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham
31st May 2000

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 2000.

Principal activities

The group's principal activities during the year were:
- retailing of chemists' merchandise and autoparts.
- the provision of opticians' services.
- the development, manufacture and marketing of healthcare and consumer products.
- property investment, development and management.

Further information on the group's continuing activities is provided on page 1.

Business review and future developments

A review of group activities during the year, research and development, and likely future developments are dealt with in the chairman's statement, strategic overview, chief executive's statement and operational review on pages 3 to 21.

Group results

The group profit and loss account for 2000 shown on page 42 includes the following details:

	2000 £m	1999 £m
Turnover	**5,189.4**	5,044.6
Profit on ordinary activities before exceptional items and taxation	**570.8**	560.6
Profit on ordinary activities before taxation	**561.7**	170.3

Appropriations

The directors recommend the payment of a final dividend of 17.7p per share which, if approved by shareholders, will be paid on 18th August 2000 to shareholders registered on 16th June 2000. When added to the interim dividend of 7.5p paid on 5th February 2000, this makes a total dividend payment for the year of 25.2p per share (1999 23.8p per share). Payment of these dividends requires £221.7m (1999 £214.5m), leaving a profit of £177.3m (1999 loss £190.6m) retained in the business.

Group structure

On 15th September 1999, it was announced that the group was setting up a 50/50 joint venture with Hollinger Telegraph New Media to create handbag.com, the first major UK internet service designed exclusively for British women.

Share capital

Details of changes in the share capital are shown in note 22 to the financial statements on page 67.

At the annual general meeting on 22nd July 1999, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each.

In the period September 1999 to February 2000, the company entered the market and purchased 16.0 million shares which have subsequently been cancelled. This represented 1.8% of the shares in issue at the end of the period and the total cost was £95.4m.

At the forthcoming annual general meeting on 27th July 2000, shareholders will be invited to renew the company's authority to make market purchases. The authority will be limited to the purchase of not more than 89.9 million ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be 105% of the average of the closing mid market quotations for the five business days before the purchase, with the minimum price being the nominal value, exclusive of any expenses payable by the company.

Details of shares purchased by Boots Qualifying Employee Share Trust and Boots ESOP Trust are shown in note 12.

Shareholders

As at 31st May 2000 the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that the Prudential Corporation group of companies holds 4.06% of the issued ordinary share capital of the company.

Fixed assets

The directors are of the opinion that the market value of the group's properties at 31st March 2000 is 11% higher than that stated in the financial statements.

Payment of suppliers

The group is a signatory of the Confederation of British Industry's Prompt Payment Code. It is the policy of the company to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days' company purchases outstanding at 31st March 2000 was 25 (1999 27).

Staff

The company continues to involve staff in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are three employee representatives as well as a retired employee. The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

Charitable and political donations

Donations for charitable and educational purposes in the UK for the year were £2.8m (1999 £2.9m). There were no political payments. Further information on community relations is shown on page 20.

Directors

Details of directors in office on 31st March 2000 are shown on pages 26 and 27. Sir Peter Davis was a director until his retirement from the board on 21st January 2000.

Sir Michael Angus, Mr J B McGrath and Mr J J H Watson retire by rotation at the annual general meeting in accordance with Article 87 and offer themselves for reappointment.

Dr M P Read, Sir Nigel Rudd and Mr K S Piggott who were appointed as directors on 23rd September 1999, 15th December 1999 and 1st April 2000 respectively retire at the annual general meeting in accordance with Article 86 and offer themselves for reappointment.

Information on service contracts and details of the interests of the directors and their families in the share capital of the company at 31st March 2000 are shown in the board remuneration report on pages 32 to 37.

Sir Peter Reynolds is retiring as a director of the company after the annual general meeting on 27th July 2000 and Lord Blyth will retire as a director on 31st July 2000.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
31st May 2000
M J Oliver
Secretary

For the year ended 31st March 2000	Notes	Before exceptional items 2000 £m	Exceptional items (note 3) 2000 £m	Total 2000 £m	Before exceptional items 1999 £m	Exceptional items (note 3) 1999 £m	Total 1999 £m
Turnover							
Turnover from continuing operations	1	5,189.4	–	5,189.4	4,912.4	–	4,912.4
Discontinued operation		–	–	–	132.2	–	132.2
Turnover: group and share of joint ventures	1	5,189.4	–	5,189.4	5,044.6	–	5,044.6
Less: share of joint ventures' turnover		(2.4)	–	(2.4)	–	–	–
Group turnover		5,187.0	–	5,187.0	5,044.6	–	5,044.6
Operating profit							
Operating profit from continuing operations		573.3	(22.0)	551.3	561.4	(76.3)	485.1
Discontinued operation		–	–	–	2.7	–	2.7
Group operating profit		573.3	(22.0)	551.3	564.1	(76.3)	487.8
Share of operating loss of joint ventures		(8.4)	–	(8.4)	(1.7)	–	(1.7)
Total operating profit including joint ventures	1,2	564.9	(22.0)	542.9	562.4	(76.3)	486.1
Profit on disposal of fixed assets	3						
Continuing operations		–	12.9	12.9	–	4.6	4.6
Discontinued operation		–	–	–	–	0.3	0.3
Loss on disposal of business	4						
Discontinued operation		–	–	–	–	(318.9)	(318.9)
Profit on ordinary activities before interest		564.9	(9.1)	555.8	562.4	(390.3)	172.1
Net interest	5	5.9	–	5.9	(1.8)	–	(1.8)
Profit on ordinary activities before taxation		570.8	(9.1)	561.7	560.6	(390.3)	170.3
Tax on profit on ordinary activities	6	(168.8)	6.3	(162.5)	(169.9)	23.6	(146.3)
Profit on ordinary activities after taxation		402.0	(2.8)	399.2	390.7	(366.7)	24.0
Equity minority interests		(0.2)	–	(0.2)	(0.1)	–	(0.1)
Profit for the financial year attributable to shareholders	7	401.8	(2.8)	399.0	390.6	(366.7)	23.9
Dividends	8			(221.7)			(214.5)
Profit/(loss) retained				177.3			(190.6)
Basic earnings per share	9	45.4p	(0.4)p	45.0p	42.9p	(40.3)p	2.6p
Diluted earnings per share	9	45.1p	(0.3)p	44.8p	42.5p	(39.9)p	2.6p

43 Other primary statements of the group

Statement of total recognised gains and losses
For the year ended 31st March 2000

	2000 £m	1999 £m
Profit for the financial year attributable to shareholders	**399.0**	23.9
Deficit on revaluation of properties	**(3.3)**	(1.4)
Impairment losses on revalued assets	**(1.1)**	(1.7)
Currency translation differences on foreign currency net investments	**(6.6)**	3.0
Other gains and losses	**–**	0.4
Total recognised gains and losses for the year	**388.0**	24.2

Currency translation differences include tax of £(0.4)m (1999 £(0.1)m).

Note on historical cost profits and losses
For the year ended 31st March 2000

	2000 £m	1999 £m
Reported profit on ordinary activities before taxation	**561.7**	170.3
Realisation of property revaluation surpluses	**4.9**	7.2
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	**0.5**	1.3
Historical cost profit on ordinary activities before taxation	**567.1**	178.8
Historical cost profit/(loss) retained	**182.7**	(182.1)

Reconciliation of movements in shareholders' funds
For the year ended 31st March 2000

	2000 £m	1999 £m
Total recognised gains and losses for the year	**388.0**	24.2
Dividends	**(221.7)**	(214.5)
New share capital issued (net of expenses)	**0.5**	8.8
Repurchase of shares	**(95.4)**	–
Goodwill relating to acquisitions prior to 1st April 1998	**–**	(1.4)
Goodwill released on disposal of businesses	**–**	312.2
Net increase in shareholders' funds	**71.4**	129.3
Opening shareholders' funds	**1,780.2**	1,650.9
Closing shareholders' funds	**1,851.6**	1,780.2

31st March 2000	Notes	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Fixed assets					
Intangible assets	10	**62.3**	64.4	**2.2**	2.8
Tangible assets	11	**1,799.0**	1,788.6	**609.9**	620.9
Investment in joint ventures – share of gross assets		**9.2**	7.1		
– share of gross liabilities		**(1.2)**	(0.9)		
	12	**8.0**	6.2	**14.8**	6.5
Other investments	12	**133.2**	106.2	**1,768.5**	1,717.4
		2,002.5	1,965.4	**2,395.4**	2,347.6
Current assets					
Stocks	13	**689.5**	722.0	**198.2**	200.1
Debtors falling due within one year	14	**404.5**	388.1	**229.8**	363.7
Debtors falling due after more than one year	14	**4.0**	14.1	**409.4**	273.2
Current asset investments and deposits	15	**379.2**	105.8	**357.9**	77.3
Cash at bank and in hand		**43.0**	32.2	**48.1**	10.6
		1,520.2	1,262.2	**1,243.4**	924.9
Creditors: Amounts falling due within one year	16	**(1,153.2)**	(1,191.0)	**(1,360.7)**	(985.9)
Net current assets		**367.0**	71.2	**(117.3)**	(61.0)
Total assets less current liabilities		**2,369.5**	2,036.6	**2,278.1**	2,286.6
Creditors: Amounts falling due after more than one year	17	**(489.2)**	(230.7)	**(767.5)**	(513.6)
Provisions for liabilities and charges	20	**(26.8)**	(25.3)	**–**	(4.8)
Net assets		**1,853.5**	1,780.6	**1,510.6**	1,768.2
Capital and reserves					
Called up share capital	21, 22	**224.8**	228.8	**224.8**	228.8
Share premium account	21	**252.5**	252.0	**252.5**	252.0
Revaluation reserve	21	**266.9**	276.2	**–**	–
Capital redemption reserve	21	**40.8**	36.8	**40.8**	36.8
Profit and loss account	21	**1,066.6**	986.4	**992.5**	1,250.6
Equity shareholders' funds		**1,851.6**	1,780.2	**1,510.6**	1,768.2
Equity minority interests		**0.5**	0.4	**–**	–
Non-equity minority interests		**1.4**	–	**–**	–
		1,853.5	1,780.6	**1,510.6**	1,768.2

The financial statements were approved by the board of directors on 31st May 2000 and are signed on its behalf by:

Lord Blyth of Rowington
Chairman

David Thompson
Deputy Chief Executive and Finance Director

45 Group cash flow information

Reconciliation of operating profit to operating cash flows

For the year ended 31st March 2000

	Notes	2000 £m	1999 £m
Group operating profit before exceptional items		**573.3**	564.1
Depreciation, amortisation and impairments of fixed assets		**154.4**	140.1
Permanent diminution – QUEST		**9.8**	–
Loss on disposal of fixed assets, excluding properties		**9.6**	6.8
Decrease/(increase) in stocks, including property development stock		**30.4**	(78.3)
Increase in debtors		**(8.3)**	(55.3)
Increase in creditors		**4.8**	39.6
Other non-cash movements		**(1.0)**	(0.6)
Net cash inflow before expenditure relating to exceptional items		**773.0**	616.4
Exceptional operating cash flows	23	**(19.3)**	(14.5)
Cash inflow from operating activities		**753.7**	601.9

The cash inflow from operating activities includes £Nil (1999 inflow £0.4m) relating to discontinued operation.

Group cash flow statement

For the year ended 31st March 2000

	Notes	2000 £m	1999 £m
Cash inflow from operating activities		**753.7**	601.9
Returns on investment and servicing of finance	23	**(9.8)**	(24.9)
Taxation		**(154.4)**	(112.4)
Capital expenditure and financial investment	23	**(221.0)**	(458.5)
Acquisitions and disposals	4	**(2.6)**	55.2
Equity dividends paid		**(216.3)**	(207.1)
Cash inflow/(outflow) before use of liquid resources and financing		**149.6**	(145.8)
Management of liquid resources	23	**(283.6)**	122.8
Financing	23	**172.8**	28.2
Increase in cash		**38.8**	5.2

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Reconciliation of net cash flow to movement in net debt

For the year ended 31st March 2000

	Notes	2000 £m	1999 £m
Increase in cash		**38.8**	5.2
Cash outflow/(inflow) from change in liquid resources	24	**283.6**	(122.8)
Cash inflow from change in borrowings and lease financing	24	**(267.7)**	(19.4)
Movement in net debt resulting from cash flows		**54.7**	(137.0)
Loan notes issued as settlement for acquisition		**–**	(16.8)
Finance lease additions		**(4.1)**	(6.7)
Increase in value of investment in 10.125% bond 2017		**18.2**	16.5
Currency and other non-cash adjustments		**(11.6)**	(1.4)
Movement in net debt during the year		**57.2**	(145.4)
Opening net debt		**(294.8)**	(149.4)
Closing net debt	24	**(237.6)**	(294.8)

Net debt comprises cash, liquid resources, finance leases and all other borrowings.

The following accounting policies have been used in dealing with items which are considered material in relation to the group and parent company financial statements.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in Schedule 4 to the Companies Act 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties. However, compliance with SSAP19 'Accounting for investment properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as described in note 11 to the financial statements on page 56.

A separate profit and loss account for the parent company has not been presented as permitted by section 230 of the Companies Act 1985.

During the year two new Financial Reporting Standards (FRSs) have been issued by the Accounting Standards Board and become effective for this year's Report and Accounts. The effects of FRS15 'Tangible Fixed Assets' and FRS16 'Current Tax' have been adopted in this year's accounts. The application of these FRSs has no significant impact on this year's accounts.

Consolidation

The group financial statements combine the results of the parent undertaking and all its subsidiaries and joint ventures, to the extent of group ownership and after eliminating intra-group transactions.

The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal.

Joint ventures are those undertakings, not recognised as subsidiaries, in which the group has a participating interest and are jointly controlled. The group's share of the results of joint ventures, which are accounted for under the gross equity method, are included in the profit and loss account and its share of their net assets is included in investments in the group balance sheet.

In the parent company balance sheet, investment in subsidiaries and joint ventures are stated at cost less impairments.

Foreign currencies

The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets (net of any related tax effects), are dealt with through reserves.

All other exchange differences are dealt with in the profit and loss account.

The cost of the parent company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made.

Goodwill and intangible assets

Goodwill on acquisitions comprises the excess of the cost of investment in subsidiary undertakings and joint ventures over the fair value of net assets acquired. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.

Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves. On disposal of such businesses, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal. For subsequent acquisitions goodwill is recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, generally not exceeding 20 years.

The cost of intangible assets acquired, which are capitalised only if separately identifiable, is amortised over estimated useful lives generally up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

Tangible fixed assets and depreciation

Depreciation of tangible fixed assets is provided to write-off the cost or valuation, less residual value, by equal installments over their expected economic useful lives as follows:
Freehold land, investment properties, assets in the course of construction – not depreciated
Freehold and long leasehold buildings, including (from 1st April 1999) shops with physical lives of more than 50 years – depreciated to their estimated residual values over their economic useful lives of not more than 50 years
Short leasehold properties – remaining period of lease when less than 50 years
Computer equipment – 3 to 8 years
Motor cars – 4 or 5 years
Other motor vehicles – 3 to 10 years
Fixtures and plant – 5 to 20 years

Any impairment in the value of such fixed assets is recognised immediately.

On adoption of FRS15, the company has adopted the transitional provisions to retain the book value of land and buildings many of which were last revalued in 1993 and has not adopted a policy of annual revaluations for the future. However, these values will be subject to impairment reviews as set out in FRS11 'Impairment of Fixed Assets and Goodwill'.

Investment properties are revalued annually and included in the balance sheet at their existing use value.

To qualify as an investment property, over 50% of rental income from the property must derive from non-group tenants.

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.

Interest is capitalised on all tangible fixed assets in the course of construction or development. The capitalisation rate applied depends on whether the construction is financed by a specific borrowing (based on actual interest rate) or whether it is financed by general borrowings (based on the weighted average rate on all non-specific borrowings).

Derivative financial instruments

The group holds derivative financial instruments to manage the interest risk of long term liabilities (including leases). Amounts payable or receivable in respect of interest rate derivatives are recognised on an accruals basis over the life of the instrument.

Short term debtors and creditors that meet the definitions of a financial asset or liability respectively have been excluded from the numerical disclosures as permitted by FRS13 'Derivatives and other Financial Instruments: Disclosures', as detailed in note 19 to the financial statements on pages 63 and 64.

Turnover

Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development
Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

Pension funding
The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

Leases
The rental costs of properties and other assets held under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation
A deferred taxation provision is made only where the effects of timing differences between profits as stated in the financial statements and as computed for tax purposes are likely to reverse in the foreseeable future.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where the liability is expected to be deferred indefinitely.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and associates as there is no present intention to remit the major part of these profits.

Exceptional items
Exceptional items are those which fall within the ordinary activities of the group and which need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the group's operations, profits or losses on the disposal of fixed assets (other than marginal adjustments to depreciation previously charged), or provisions in respect of such items. In these cases, disclosure is made on the face of the profit and loss account after operating profit.

1 Segmental information

(i) Turnover by business segment

	Notes	Total 2000 £m	Inter-segmental 2000 £m	External 2000 £m	Total 1999 £m	Inter-segmental 1999 £m	External 1999 £m
Continuing operations							
Boots The Chemists		**3,978.8**	**–**	**3,978.8**	3,823.1	–	3,823.1
Boots Retail International – group		**30.2**	**–**	**30.2**	15.8	–	15.8
– share of joint venture		**2.3**	**–**	**2.3**	–	–	–
Boots Opticians		**195.7**	**–**	**195.7**	194.3	–	194.3
Halfords		**492.6**	**0.6**	**492.0**	457.3	0.6	456.7
Boots Properties	a	**139.5**	**81.1**	**58.4**	96.3	79.3	17.0
Boots Healthcare International		**327.1**	**20.0**	**307.1**	308.4	18.6	289.8
Boots Contract Manufacturing		**321.1**	**198.7**	**122.4**	309.8	194.1	115.7
handbag.com – share of joint venture		**0.1**	**–**	**0.1**	–	–	–
Group Strategic Initiatives		**2.4**	**–**	**2.4**	–	–	–
		5,489.8	**300.4**	**5,189.4**	5,205.0	292.6	4,912.4
Discontinued operation (see note 4(ii))							
Do It All		**–**	**–**	**–**	132.2	–	132.2
		5,489.8	**300.4**	**5,189.4**	5,337.2	292.6	5,044.6

a Boots Properties' turnover includes development income of £45.9m (1999 £4.8m).

(ii) Turnover by geographical segment

	Origin 2000 £m	Origin 1999 £m	Destination 2000 £m	Destination 1999 £m
Continuing operations				
UK	**4,863.2**	4,622.0	**4,788.2**	4,550.2
Rest of Europe	**283.5**	262.1	**304.3**	283.9
Rest of World	**79.2**	59.7	**96.9**	78.3
Inter-segmental	**(36.5)**	(31.4)	**–**	–
	5,189.4	4,912.4	**5,189.4**	4,912.4
Discontinued operation				
UK	**–**	132.2	**–**	132.2
	5,189.4	5,044.6	**5,189.4**	5,044.6

1 Segmental information continued

(iii) Total operating profit by business segment

	Notes	Before exceptional items and QUEST 2000 £m	QUEST (note c) 2000 £m	Before exceptional items 2000 £m	Exceptional operating items (note 3) 2000 £m	Total 2000 £m	Before exceptional items 1999 £m	Exceptional operating items (note 3) 1999 £m	Total 1999 £m
Continuing operations									
Boots The Chemists		**502.7**	**(11.1)**	**491.6**	**(22.0)**	**469.6**	461.8	(8.9)	452.9
Boots Retail International									
– group		**(27.0)**	**(0.1)**	**(27.1)**	**–**	**(27.1)**	(19.2)	–	(19.2)
– share of joint venture		**(5.5)**	**–**	**(5.5)**	**–**	**(5.5)**	(1.7)	–	(1.7)
Boots Opticians		**12.4**	**(1.2)**	**11.2**	**–**	**11.2**	14.5	–	14.5
Halfords		**46.2**	**(1.0)**	**45.2**	**–**	**45.2**	40.3	–	40.3
Boots Properties	a	**62.4**	**(0.1)**	**62.3**	**–**	**62.3**	65.2	–	65.2
Boots Healthcare International		**24.5**	**(0.5)**	**24.0**	**–**	**24.0**	15.3	(5.2)	10.1
Boots Contract Manufacturing		**27.0**	**(1.8)**	**25.2**	**–**	**25.2**	24.3	(2.5)	21.8
handbag.com – share of joint venture		**(2.9)**	**–**	**(2.9)**	**–**	**(2.9)**	–	–	–
Group Strategic Initiatives	b	**(17.7)**	**–**	**(17.7)**	**–**	**(17.7)**	(0.8)	–	(0.8)
Group costs		**(47.4)**	**6.0**	**(41.4)**	**–**	**(41.4)**	(40.0)	(59.7)	(99.7)
		574.7	**(9.8)**	**564.9**	**(22.0)**	**542.9**	559.7	(76.3)	483.4
Discontinued operation									
Do It All		**–**	**–**	**–**	**–**	**–**	2.7	–	2.7
Total operating profit including joint ventures		**574.7**	**(9.8)**	**564.9**	**(22.0)**	**542.9**	562.4	(76.3)	486.1

a Boots Properties' results include development profit of £2.5m (1999 loss £0.2m).
b Group Strategic Initiatives represent the development of new business streams that are not contained within any current businesses.
c A further 5.7m shares have been acquired by the QUEST (see note 12) resulting in a charge against operating profits of £9.8m (1999 £Nil) in the year. These charges and the interest on borrowings to finance all the shares now held by the QUEST for the year of £6.8m have been charged to businesses. The adjustment to remove from operating profit that interest of £6.8m charged elsewhere, is shown in group costs. The cost of £59.7m of setting up the scheme last year was treated as an exceptional operating item (see note 3).

Non-operating exceptionals are shown in note 3.

(iv) Total operating profit by geographic origin

	Before exceptional items 2000 £m	Exceptional operating items (note 3) 2000 £m	Total 2000 £m	Before exceptional items 1999 £m	Exceptional operating items (note 3) 1999 £m	Total 1999 £m
Continuing operations						
UK	**600.3**	**(22.0)**	**578.3**	583.9	(14.7)	569.2
Rest of Europe	**5.4**	**–**	**5.4**	10.8	(1.4)	9.4
Rest of World	**0.6**	**–**	**0.6**	5.0	(0.5)	4.5
Group costs	**(41.4)**	**–**	**(41.4)**	(40.0)	(59.7)	(99.7)
Operating profit from continuing operations	**564.9**	**(22.0)**	**542.9**	559.7	(76.3)	483.4
Discontinued operation						
UK	**–**	**–**	**–**	2.7	–	2.7
Total operating profit including joint ventures	**564.9**	**(22.0)**	**542.9**	562.4	(76.3)	486.1

1 Segmental information continued

(v) Net assets by business segment

	2000 £m	1999 £m
Continuing operations		
Boots The Chemists	**909.3**	835.2
Boots Retail International	**41.4**	32.8
Boots Opticians	**51.0**	50.0
Halfords	**127.0**	114.1
Boots Properties	**838.7**	884.1
Boots Healthcare International	**89.8**	103.1
Boots Contract Manufacturing	**172.5**	169.0
handbag.com	**0.7**	–
Net operating assets	**2,230.4**	2,188.3
Unallocated net liabilities	**(376.9)**	(407.7)
	1,853.5	1,780.6

Net operating assets include intangible and tangible fixed assets, fixed asset investments, stocks, third party debtors and creditors and inter-segmental trading balances. Unallocated net liabilities include all current taxation balances, dividend creditors, net debt and provisions for liabilities and charges.

(vi) Net operating assets by geographical segment

	2000 £m	1999 £m
Continuing operations		
UK	**2,119.8**	2,081.0
Rest of Europe	**75.5**	73.7
Rest of World	**35.1**	33.6
	2,230.4	2,188.3

2 Total operating profit

	Continuing operations 2000 £m	Continuing operations 1999 £m	Discontinued operation 1999 £m	Total 1999 £m
Turnover	**5,187.0**	4,912.4	132.2	5,044.6
Cost of sales	**(2,792.3)**	(2,632.9)	(62.2)	(2,695.1)
Gross profit	**2,394.7**	2,279.5	70.0	2,349.5
Selling, distribution and store costs	**(1,462.9)**	(1,415.3)	(57.4)	(1,472.7)
Research and development costs	**(26.5)**	(24.8)	–	(24.8)
Administrative expenses	**(354.0)**	(354.3)	(9.9)	(364.2)
Share of operating loss of joint ventures	**(8.4)**	(1.7)	–	(1.7)
Total operating profit	**542.9**	483.4	2.7	486.1
Exceptional charges included in operating profit:				
Cost of sales	**–**	(1.8)	–	(1.8)
Selling, distribution and store costs	**–**	(7.4)	–	(7.4)
Administrative expenses	**(22.0)**	(67.1)	–	(67.1)
	(22.0)	(76.3)	–	(76.3)
Gross profit before exceptional items	**2,394.7**	2,281.3	70.0	2,351.3
Total operating profit before exceptional items	**564.9**	559.7	2.7	562.4

There have been no significant acquisitions during 2000.

Total operating profit is after charging:	2000 £m	1999 £m
Operating lease rentals		
– Property rents	**198.9**	182.1
– Computer and plant hire	**4.0**	4.0
Depreciation, amortisation and impairments of fixed assets	**154.4**	140.1
Permanent diminution – QUEST	**9.8**	–
Auditors' remuneration, including £0.3m (1999 £0.3m) for the parent company	**0.8**	0.8

The group auditors and their associates also received £6.4m (1999 £1.9m) in respect of non-audit services in the UK which were predominantly for a review of opportunities in financial services and £0.4m (1999 £0.3m) from overseas subsidiaries.

3 Exceptional items

	Notes	**Continuing operations 2000 £m**	Continuing operations 1999 £m	Discontinued operation 1999 £m	Total 1999 £m
Exceptional operating items:					
Boots The Chemists	a	**(22.0)**	(8.9)	–	(8.9)
Boots Healthcare International	b	**–**	(5.2)	–	(5.2)
Boots Contract Manufacturing	c	**–**	(2.5)	–	(2.5)
Group costs	d	**–**	(59.7)	–	(59.7)
		(22.0)	(76.3)	–	(76.3)
Profit on disposal of properties		**12.9**	4.6	0.3	4.9
Loss on disposal of business (see note 4)		**–**	–	(318.9)	(318.9)
		(9.1)	(71.7)	(318.6)	(390.3)
Attributable tax credit (see note 6)		**6.3**	23.6	–	23.6
		(2.8)	(48.1)	(318.6)	(366.7)

a Boots The Chemists has incurred costs of reorganising its head office in Nottingham. Costs were incurred last year for integrating the Hayes Conyngham & Robinson and Connors businesses into the Boots The Chemists chain.
b Boots Healthcare International incurred costs last year associated with the restructuring of business support services.
c Boots Contract Manufacturing initiated a competitive cost programme resulting in redundancy costs last year.
d Last year the group established a QUEST (see note 12). The amount shown last year represents the cost of the company's contribution to the QUEST being the difference between the market value of the shares bought by the QUEST and the option price payable by employees to acquire those shares when SAYE options over them mature. This charge was exceptional last year because it related to all options granted over a number of years up to 31st March 1999. Current year costs have been charged against operating profit (see note 1(iii)).

4 Acquisition and disposal of businesses

(i) Acquisitions

	Total 2000 £m	Total 1999 £m
Tangible fixed assets	**–**	4.6
Stocks	**0.1**	7.7
Debtors	**0.4**	1.6
Cash balances/(overdrafts)	**0.1**	(4.1)
Other creditors and provisions	**(0.5)**	(8.5)
Fair value of net assets acquired	**0.1**	1.3
Goodwill – current year	**3.3**	22.8
– relating to acquisitions prior to 1st April 1998	**–**	1.4
Consideration including acquisition costs	**3.4**	25.5
Variable rate loan notes consideration included above	**–**	16.8

All businesses purchased have been accounted for using the acquisition method of accounting. None of these were individually significant and are therefore not shown separately.

During the year Boots The Chemists acquired a number of pharmacy businesses. There were no significant fair value adjustments in respect of any of these acquisitions.

Goodwill relating to acquisitions in the year is being amortised over 20 years.

The principal purchase during the year to 31st March 1999 was the acquisition by Boots The Chemists on 7th April 1998 of Connors Holdings Ltd, a privately owned retail pharmacy chain for £17m with stores in Northern Ireland, the Republic of Ireland, England and Wales.

4 Acquisition and disposal of businesses continued

(ii) Disposal

	2000 £m	1999 £m
Tangible fixed assets	–	(55.7)
Stocks	–	(68.9)
Debtors	–	(12.4)
Overdrafts	–	0.1
Other creditors and provisions	–	70.0
Net assets disposed of	–	(66.9)
Related goodwill	–	(312.2)
Disposal and other termination costs	–	(2.0)
Consideration	–	62.2
Loss on disposal	–	(318.9)
Consideration repayable included above	–	(2.3)

Do It All

The disposal in the year to 31st March 1999 was the sale of Do It All to Focus Retail Group Ltd (Focus) that was completed on 19th August 1998 for a consideration of £62.2m which includes a repayment by Boots of £2.3m to Focus in respect of the final settlement on completion of the net asset value statement in May 1999. Boots will continue to act as guarantor for leases on 29 stores associated with this transaction with a total annual rent of £6m.

(iii) Net cash (outflow)/inflow for acquisitions and disposals

	2000 £m	1999 £m
Acquisition of businesses	**(3.4)**	(8.7)
Cash balances/(overdrafts) acquired with businesses	**0.1**	(4.1)
Instalment received on loan made to W H Smith	**10.0**	10.0
Disposal of business	–	64.5
Overdrafts sold with businesses	–	0.1
Deferred consideration in respect of prior year acquisitions and disposals	**(2.3)**	(0.1)
Costs of disposal paid	–	(0.4)
Investment in joint ventures	**(8.3)**	(6.5)
Investment by minority interests in subsidiary undertaking	**1.3**	0.4
	(2.6)	55.2

5 Net interest

	2000 £m	1999 £m
Interest payable and similar charges:		
Bank loans and overdrafts	**(12.9)**	(14.8)
Other loans	**(40.4)**	(27.8)
Finance lease charges	**(1.3)**	(1.3)
Interest capitalised	**1.0**	3.1
Income from interest rate swaps	**23.9**	8.8
	(29.7)	(32.0)
Interest receivable and similar income	**17.4**	13.7
Increase in value of investment in 10.125% bond 2017	**18.2**	16.5
Net interest	**5.9**	(1.8)

6 Tax on profit on ordinary activities

	2000 £m	1999 £m
UK corporation tax at 30.0% (1999 31.0%):		
Current tax on income for the period	**164.2**	135.5
Adjustment in respect of prior periods	**(2.1)**	3.7
	162.1	139.2
Deferred taxation	**(3.4)**	4.6
Relief for overseas taxation	**(3.7)**	(1.3)
Total UK taxation	**155.0**	142.5
Overseas taxation:		
Current tax on income for the period	**7.2**	5.6
Adjustments in respect of prior period	**(0.1)**	(1.2)
Overseas deferred taxation	**0.4**	(0.6)
Total	**162.5**	146.3
Tax credit included above attributable to operating exceptional items	**(6.3)**	(23.6)
Share of tax credit of joint ventures included above	**(0.8)**	–

7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders, £59.0m (1999 £73.2m) is dealt with in the financial statements of the parent company.

8 Dividends

	2000 p per share	1999 p per share	2000 £m	1999 £m
Interim	**7.5**	7.1	**66.5**	64.8
Final proposed	**17.7**	16.7	**155.2**	149.7
	25.2	23.8	**221.7**	214.5

9 Earnings per share

	2000	1999
Basic earnings per share before exceptional items	**45.4p**	42.9p
Effect of exceptional items	**(0.4)p**	(40.3)p
Basic earnings per share	**45.0p**	2.6p
Diluted earnings per share before exceptional items	**45.1p**	42.5p
Effect of exceptional items	**(0.3)p**	(39.9)p
Diluted earnings per share	**44.8p**	2.6p

The calculation of basic and diluted earnings per share is based on:

Earnings	2000 £m	1999 £m
Earnings for adjusted basic and diluted earnings per share calculation	**401.8**	390.6
Exceptional items	**(2.8)**	(366.7)
Earnings for basic and diluted earnings per share calculation	**399.0**	23.9

Number of shares	2000 million	1999 million
Weighted average number of shares used in basic earnings per share calculation	**885.7**	911.1
Dilutive effect of options	**5.0**	8.3
Weighted average number of shares used in diluted earnings per share calculation	**890.7**	919.4

The weighted average number of shares used in basic earnings per share calculation excludes shares held by The Boots ESOP Trust and the QUEST.

The dilutive effect relates to options under an employee savings related scheme and an executive option scheme.

Basic and diluted earnings per share before exceptional items are disclosed to reflect the underlying performance of the group.

10 Intangible fixed assets

	Group Purchased goodwill £m	Group Patents, trademarks and other product rights acquired £m	Group Total £m	Parent Patents, trademarks and other product rights acquired £m
Cost				
At 1st April 1999	22.8	61.1	83.9	9.0
Currency adjustments	–	(2.3)	(2.3)	–
Additions	–	0.9	0.9	0.1
Acquisition of businesses (see note 4)	3.3	–	3.3	–
At 31st March 2000	**26.1**	**59.7**	**85.8**	**9.1**
Amortisation				
At 1st April 1999	0.9	18.6	19.5	6.2
Currency adjustments	–	(0.4)	(0.4)	–
Amortisation for year	1.2	3.2	4.4	0.7
At 31st March 2000	**2.1**	**21.4**	**23.5**	**6.9**
Net book value at 1st April 1999	21.9	42.5	64.4	2.8
Net book value at 31st March 2000	**24.0**	**38.3**	**62.3**	**2.2**

Brands previously acquired by Boots Healthcare International (BHI), namely Dobendan and its derivatives, and Migränin are well known and well positioned in their markets and BHI plans to improve this position. BHI concluded that these brands have an indefinite useful economic life and they are not being amortised. As a consequence an annual impairment review is being undertaken. The valuation of these brands is significantly in excess of the carrying value.

11 Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1999	899.0	347.5	1,274.3	73.6	2,594.4
Currency adjustments	(1.3)	(1.1)	(0.9)	–	(3.3)
Additions	73.1	34.2	126.9	18.6	252.8
Disposals	(72.8)	(27.8)	(65.1)	–	(165.7)
Reclassifications	28.4	3.1	33.1	(64.6)	–
Revaluation deficit on investment properties	(3.3)	–	–	–	(3.3)
Impairment losses on revalued assets	(1.1)	–	–	–	(1.1)
At 31st March 2000	**922.0**	**355.9**	**1,368.3**	**27.6**	**2,673.8**
Gross book value of depreciable assets	464.8	355.9	1,368.3	18.1	2,207.1
Depreciation					
At 1st April 1999	45.2	137.4	623.2	–	805.8
Currency adjustments	(0.2)	(0.5)	(0.4)	–	(1.1)
Depreciation for year	10.5	38.0	96.6	–	145.1
Disposals	(0.9)	(19.0)	(55.4)	–	(75.3)
Reclassifications	–	0.6	(0.6)	–	–
Impairment losses	0.3	–	–	–	0.3
At 31st March 2000	**54.9**	**156.5**	**663.4**	**–**	**874.8**
Net book value at 1st April 1999	853.8	210.1	651.1	73.6	1,788.6
Net book value at 31st March 2000	**867.1**	**199.4**	**704.9**	**27.6**	**1,799.0**

The cost of plant and machinery includes £27.7m (1999 £30.8m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £9.2m (1999 £9.6m) and for which the depreciation charge for the year was £5.8m (1999 £5.8m).

Land and buildings and assets in course of construction include capitalised interest, net of taxation, of £5.7m (1999 £5.2m).

Land and buildings include investment properties as follows:

Valuation	£m
At 1st April 1999	105.2
Additions	11.3
Disposals	(27.9)
Reclassifications	7.8
Revaluation deficit	(3.3)
At 31st March 2000	**93.1**

Investment properties were valued on the basis of existing use value at 31st March 2000 by the group's own professionally qualified staff.

In accordance with SSAP19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements to provide for the systematic annual depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that the adoption of the above policy is necessary to give a true and fair view.

11 Tangible fixed assets continued

Parent	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1999	403.6	236.9	198.0	8.7	847.2
Additions	1.3	12.8	24.7	4.2	43.0
Disposals	(3.1)	(12.3)	(42.0)	–	(57.4)
Reclassifications and transfers	0.2	3.3	1.7	(8.1)	(2.9)
At 31st March 2000	**402.0**	**240.7**	**182.4**	**4.8**	**829.9**
Gross book value of depreciable assets	173.7	240.7	182.4	4.8	601.6
Depreciation					
At 1st April 1999	22.0	97.1	107.2	–	226.3
Depreciation for year	2.5	21.4	15.6	–	39.5
Disposals	(0.1)	(9.1)	(37.4)	–	(46.6)
Transfers	0.1	1.1	(0.4)	–	0.8
At 31st March 2000	**24.5**	**110.5**	**85.0**	**–**	**220.0**
Net book value at 1st April 1999	381.6	139.8	90.8	8.7	620.9
Net book value at 31st March 2000	**377.5**	**130.2**	**97.4**	**4.8**	**609.9**

The cost of plant and machinery includes £15.3m (1999 £17.6m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £5.2m (1999 £5.5m) and for which the depreciation charge for the year was £3.4m (1999 £3.5m).

	Group 2000 £m	Group 1999 £m	**Parent 2000 £m**	Parent 1999 £m
Net book value of land and buildings comprises:				
Freehold	**667.1**	656.3	**343.7**	346.5
Long leasehold (more than 50 years unexpired)	**159.5**	162.2	**33.8**	35.1
Short leasehold	**40.5**	35.3	**–**	–
	867.1	853.8	**377.5**	381.6
Analysis of cost or valuation:				
Cost	**2,041.1**	1,897.6	**822.3**	839.6
Valuation of properties – Directors 1993	**531.0**	582.9	**–**	–
– Independent 1989 and prior	**8.6**	8.7	**7.6**	7.6
Investment properties – Directors 2000	**93.1**	105.2	**–**	–
	2,673.8	2,594.4	**829.9**	847.2
Value of tangible fixed assets under the historical cost convention				
Cost	**2,403.7**	2,317.5	**833.0**	846.5
Depreciation	**873.8**	804.9	**221.9**	225.9
Net book value	**1,529.9**	1,512.6	**611.1**	620.6

The valuations are on an open market basis for existing use.

12 Fixed asset investments

Group	Joint venture equity £m	Loans to joint venture £m	Own shares £m	Total £m
Cost				
At 1st April 1999	6.2	–	170.6	176.8
Currency adjustments	1.1	–	–	1.1
Additions	6.1	2.2	51.5	59.8
Disposals	–	–	(22.6)	(22.6)
Share of retained losses	(7.6)	–	–	(7.6)
At 31st March 2000	**5.8**	**2.2**	**199.5**	**207.5**
Provision/amortisation				
At 1st April 1999	–	–	64.4	64.4
Disposals	–	–	(12.5)	(12.5)
Permanent diminution – QUEST	–	–	9.8	9.8
Amortisation of own shares – ESOP	–	–	4.6	4.6
At 31st March 2000	**–**	**–**	**66.3**	**66.3**
Net book value at 1st April 1999	6.2	–	106.2	112.4
Net book value at 31st March 2000	**5.8**	**2.2**	**133.2**	**141.2**

Parent	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Joint venture equity £m	Loans to joint venture £m	Own shares £m	Total £m
Cost						
At 1st April 1999	1,586.3	96.1	6.5	–	170.6	1,859.5
Currency adjustments	–	(1.4)	–	–	–	(1.4)
Additions	30.7	29.5	6.1	2.2	51.5	120.0
Disposals and repayments	(45.0)	(32.3)	–	–	(22.6)	(99.9)
At 31st March 2000	**1,572.0**	**91.9**	**12.6**	**2.2**	**199.5**	**1,878.2**
Provision/amortisation						
At 1st April 1999	69.1	2.1	–	–	64.4	135.6
Disposals	(41.9)	–	–	–	(12.5)	(54.4)
Movement	(0.7)	–	–	–	–	(0.7)
Permanent diminution – QUEST	–	–	–	–	9.8	9.8
Amortisation of own shares – ESOP	–	–	–	–	4.6	4.6
At 31st March 2000	**26.5**	**2.1**	**–**	**–**	**66.3**	**94.9**
Net book value at 1st April 1999	1,517.2	94.0	6.5	–	106.2	1,723.9
Net book value at 31st March 2000	**1,545.5**	**89.8**	**12.6**	**2.2**	**133.2**	**1,783.3**

The principal subsidiary undertakings and joint ventures are listed on page 71.

No interest is payable on loans made to joint ventures.

12 Fixed asset investments continued

Own shares

Boots ESOP Trust Ltd, on behalf of The Boots Employee Trust, holds shares in the company which may subsequently be transferred to executive directors and senior employees under Boots Long Term Bonus Scheme (see page 34) and Boots Restricted Share Co-Investment Scheme. Under this latter scheme, awards under which have now ceased, participating senior employees purchased shares in the company using up to 50% of their annual bonus earned during the previous year and were granted a potential entitlement to receive a number of further shares equivalent to twice the pre-tax value of the sum invested. The employees' entitlement to receive the shares at the end of a specified performance period depends on the company's total shareholder return, compared to a peer group of companies, over that period. At 31st March 2000, the trust held 2.4m (1999 1.6m) shares in the company with a market value of £12.9m (1999 £14.7m). Dividends have been waived by the trust. The shares were purchased to service Boots Long Term Bonus Scheme and Boots Restricted Share Co-investment Scheme awards for all the performance cycles that have begun. Estimates have been made for the number of shares required for performance cycles which have not yet ended. Their cost, £22m, is being charged to the profit and loss account over the relevant performance and service periods. Costs of administering the trust are charged to the profit and loss account.

Last year a qualifying employee share ownership trust (QUEST) was established by the company. The purpose of the QUEST is to acquire shares in the company as a means through which shares will be delivered to employees (including executive directors) who exercise options granted in respect of the company's shares under the Boots 1990 SAYE Share Option Scheme. Under this scheme, options have been granted enabling employees to subscribe for ordinary shares at 80% of the average middle market price on the three days preceding the date of offer. The options may normally be exercised up to six months after they mature either three, five or seven years after grant. A provision for permanent diminution in the value of shares purchased, being the difference between the market value of the shares bought by the QUEST and the option price payable by employees, is made at the date of purchase. The impact of such impairment provisions on the results of the group and individual businesses is shown in note 1(iii).

During the year a further 5.7m shares have been acquired by the QUEST. At 31st March 2000 20.1m (1999 16.9m) ordinary shares with a market value of £108.0m (1999 £150.9m) were held by the QUEST of which 2.4m related to lapsed options. The company provides funds to the trust to purchase the shares. Dividends have been waived by the trust.

Outstanding options for which shares have been acquired are as follows:

Option granted	**Number of shares (millions) 2000**	Number of shares (millions) 1999	Option price (p)
1991	**–**	0.1	337
1992	**–**	0.4	352
1992	**0.1**	0.2	386
1993	**0.3**	0.3	350
1993	**0.3**	0.4	418
1994	**0.3**	1.1	421
1994	**0.6**	1.0	415
1995	**1.6**	1.8	410
1996	**2.1**	3.0	485
1997	**3.8**	4.6	588
1998	**2.7**	4.0	808
1999	**5.9**	–	624

Both the ESOP Trust and the QUEST are regarded as quasi subsidiaries under FRS5 and their assets, liabilities and results are consolidated into the financial statements of both the company and the group.

13 Stocks

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Manufacturing:				
Raw materials	**24.6**	24.8	**13.5**	14.0
Work in progress	**10.5**	9.2	**8.0**	7.3
Finished goods	**55.9**	58.3	**30.5**	35.2
	91.0	92.3	**52.0**	56.5
Retailing	**584.2**	578.7	**146.2**	143.6
Property development	**14.3**	51.0	**–**	–
	689.5	722.0	**198.2**	200.1

14 Debtors

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Falling due within one year:				
Trade debtors	**282.3**	268.7	**61.6**	49.5
Owed by subsidiary undertakings	**–**	–	**91.4**	185.6
Owed by joint ventures	**1.8**	1.7	**1.6**	1.5
Other debtors	**33.9**	43.0	**45.1**	58.9
Prepayments and accrued income	**83.9**	72.4	**29.5**	16.5
Corporation tax	**2.6**	2.3	**0.6**	–
Advance corporation tax	**–**	–	**–**	51.7
	404.5	388.1	**229.8**	363.7
Falling due after more than one year:				
Owed by subsidiary undertakings	**–**	–	**390.3**	250.9
Other debtors	**4.0**	14.1	**14.4**	22.3
Deferred tax (see note 20)	**–**	–	**4.7**	–
	4.0	14.1	**409.4**	273.2
	408.5	402.2	**639.2**	636.9

15 Current asset investments and deposits

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Listed investments	**0.1**	0.1	**–**	–
Short term deposits	**379.1**	96.3	**357.9**	67.9
Certificates of tax deposit	**–**	9.4	**–**	9.4
	379.2	105.8	**357.9**	77.3
Market value of investments listed on The London Stock Exchange	**0.2**	0.2	**–**	–

16 Creditors: Amounts falling due within one year

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Borrowings (see note 18)	**210.8**	246.3	**617.7**	345.1
Trade creditors	**355.3**	360.2	**273.3**	270.4
Bills of exchange	**3.7**	2.8	**–**	0.1
Due to subsidiary undertakings	**–**	–	**138.6**	48.7
Corporation tax	**124.7**	106.0	**14.9**	8.3
Advance corporation tax	**–**	16.1	**–**	16.1
Taxation and social security (including VAT and other sales taxes)	**39.7**	37.0	**14.5**	16.1
Other creditors	**139.4**	171.0	**78.9**	83.8
Accruals and deferred income	**124.4**	101.8	**67.6**	47.6
Dividends (see note 8)	**155.2**	149.8	**155.2**	149.7
	1,153.2	1,191.0	**1,360.7**	985.9

17 Creditors: Amounts falling due after more than one year

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Borrowings (see note 18)	**449.0**	186.5	**676.7**	385.4
Due to subsidiary undertakings	**–**	–	**65.9**	104.9
Due to joint ventures	**–**	0.2	**–**	–
Other creditors	**7.2**	5.1	**3.7**	2.4
Accruals and deferred income	**33.0**	38.9	**21.2**	20.9
	489.2	230.7	**767.5**	513.6

The only creditors falling due after more than five years are included in borrowings, details of which are shown in note 18.

18 Borrowings

	Notes	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Bank loans and overdrafts repayable on demand		**103.1**	130.3	**555.5**	277.2
Other bank loans and overdrafts	a	**161.3**	131.2	**157.2**	124.3
Variable rate notes – Sterling	b	**11.8**	28.3	**–**	11.4
– Irish punts	b	**10.5**	11.3	**–**	–
Commercial paper		**–**	39.7	**–**	39.7
10.125% bond 2017	c	**47.6**	65.8	**263.5**	259.6
5.5% eurobond 2009	d	**300.0**	–	**300.0**	–
Net liability under currency swaps	e	**8.4**	6.3	**8.4**	6.3
Obligations under finance leases		**17.1**	19.9	**9.8**	12.0
		659.8	432.8	**1,294.4**	730.5
Amounts included above repayable by instalments		**187.4**	221.3	**122.0**	136.2
Repayments fall due as follows:					
Within one year:					
– Bank loans and overdrafts		**149.4**	130.7	**600.5**	277.2
– Obligations under finance leases		**6.9**	7.8	**4.2**	4.8
– Other borrowings		**54.5**	107.8	**13.0**	63.1
		210.8	246.3	**617.7**	345.1
After more than one year:					
– Within one to two years		**45.1**	44.1	**17.5**	17.2
– Within two to five years		**68.7**	85.5	**324.0**	315.1
– After five years		**335.2**	56.9	**335.2**	53.1
		449.0	186.5	**676.7**	385.4
		659.8	432.8	**1,294.4**	730.5

a Other bank loans and overdrafts include the factoring of certain rental commitments of £112.2m (1999 £124.3m) over a ten year period up to March 2007, £95m of which was swapped into a floating rate of interest.
b Variable rate notes are repayable, subject to certain restrictions, at the option of the holders.
c A subsidiary, Boots Investments Limited, owns all the £250m 10.125% bond 2017 of The Boots Company PLC, together with all the outstanding interest coupons other than those maturing on or before 24th June 2002. The parent company has entered into an agreement with Boots Investments Limited to redeem the bond on 25th June 2002 for an amount of £275m. The group balance sheet consolidates the borrowing by the parent company with the present value of the investment held by the subsidiary.
d A £300m eurobond was issued during the year on which fixed rate interest of 5.5% is charged and is redeemable in May 2009.
e The group has a number of US dollar currency swaps, which are equivalent to borrowing US dollars and depositing sterling for a fixed period. Following the disposal of Boots Pharmaceuticals on 31st March 1995, the group put in place a series of matching swaps, which are equivalent to depositing US dollars and borrowing sterling. The net liability shown above represents the effect of translating the above transactions into sterling at the year end exchange rate.

The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted are, £40m of the 10.125% bond, £300m of the 5.5% eurobond, £1,100m of operating leases and £95m referred to in note 'a' above. Further details are provided in the financial review on page 24.

All borrowings are unsecured.

19 Financial instruments and derivatives

An explanation of treasury policy and controls can be found in the financial review on page 24.

(i) Fair values of financial assets and liabilities

The fair value of currency and interest rate swaps, fixed rate borrowings, and long term financial assets on which no interest is paid have been determined with reference to market prices using discounted cash flows. All other financial assets and liabilities are at floating rates of interest and therefore their fair value and book value are equal.

The majority of the interest rate swaps shown below relate to the swapping of implied fixed rate interest payments on operating leases to floating rate.

	Note	Book value 2000 £m	Fair value 2000 £m	Book value 1999 £m	Fair value 1999 £m
Primary financial instruments held or issued to finance the company's operations:					
Cash in hand and bank		**43.0**	**43.0**	32.2	32.2
Current asset investments and deposits		**379.2**	**379.2**	105.8	105.8
Other financial assets	a	**2.0**	**2.0**	22.2	21.4
Bank loans and overdrafts repayable on demand		**(103.1)**	**(103.1)**	(130.3)	(130.3)
Eurobond		**(300.0)**	**(282.7)**	–	–
Obligations under finance leases		**(17.1)**	**(17.1)**	(19.9)	(19.9)
Other borrowings (excluding currency swaps)		**(231.2)**	**(230.5)**	(276.3)	(294.1)
Other financial liabilities	a	**(1.3)**	**(1.3)**	(0.6)	(0.6)
Derivative financial instruments held to manage interest rate and currency profile:					
Interest rate swaps relating to operating leases		**–**	**41.3**	–	120.3
Interest rate swaps relating to fixed rate borrowings		**–**	**(11.9)**	–	15.7
Currency swaps (see note 18)		**(8.4)**	**(13.4)**	(6.3)	(14.9)
Interest rate caps		**–**	**(0.3)**	–	(1.2)

a Other financial assets and liabilities are not included in net debt (see note 24)

(ii) Interest rate risk profile

The tables below reflect the interest rate risk profile after taking into account the effect of interest rate swaps.

(a) Financial liabilities

Currency	Floating rate £m	Fixed rate £m	Financial liabilities on which no interest is payable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	(592.0)	(41.8)	–	(633.8)	8.1	3.9
Other	(22.8)	(8.8)	(0.5)	(32.1)	8.6	2.7
At 31st March 2000	**(614.8)**	**(50.6)**	**(0.5)**	**(665.9)**	**8.2**	**3.7**
Sterling	(335.4)	(59.3)	(0.6)	(395.3)	8.3	4.9
Other	(30.7)	(7.4)	–	(38.1)	8.5	3.6
At 31st March 1999	(366.1)	(66.7)	(0.6)	(433.4)	8.3	4.8

The financial liability on which no interest is payable, is repayable on demand.

In addition to the financial instruments included above, the group also holds a number of interest rate swaps that are used to manage the implicit fixed rate interest on leases. At the year end the notional amount of these swaps was £1,100m (1999 £875m), with an average life to maturity of 7.9 years (1999 7.3 years) and a weighted average fixed rate of 7.4% (1999 7.7%). The floating rate payable on these swaps is based on LIBOR and is capped at 9% for £700m (1999 9% for £700m) of the swaps.

(b) Financial assets

Currency	Floating rate £m	Fixed rate £m	Financial assets on which no interest is receivable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	379.3	–	2.9	382.2	–	–
Other	34.5	6.8	5.5	46.8	3.0	0.9
At 31st March 2000	**413.8**	**6.8**	**8.4**	**429.0**	**3.0**	**0.9**
Sterling	85.3	–	22.5	107.8	–	–
Other	45.6	4.5	2.3	52.4	2.6	0.8
At 31st March 1999	130.9	4.5	24.8	160.2	2.6	0.8

All financial assets on which no interest is receivable are repayable on demand.

The other currency financial assets relate mainly to bank deposits held by foreign subsidiary companies.

The majority of the floating rate assets and liabilities receive or pay interest based on rates ruling in the London inter-bank market.

19 Financial instruments and derivatives continued

(iii) Foreign currency exposure profile

Operations with a sterling functional currency have Irish punts and US dollar monetary liabilities amounting to £10.5m (1999 £11.4m) and £13.1m (1999 £12.0m) respectively.

There were no other material foreign currency monetary assets and liabilities that may give rise to an exchange gain or loss in the profit and loss account.

(iv) Maturity of financial instruments/facilities

At 31st March 2000 the company had the following undrawn committed facilities available:

	2000 £m	1999 £m
Expiring in one year or less	**–**	–
Expiring in more than one year but not more than two years	**–**	60.0
Expiring in more than two years	**600.0**	540.0
	600.0	600.0

(v) The maturity of borrowings

Details are shown in note 18.

(vi) Hedging

Gains arising from the hedging of interest rates of £23.9m (1999 £8.8m) have been recognised in the profit and loss account. Included in the amount for interest receivable from interest rate swaps is a charge of £0.6m (1999 £0.4m) relating to interest rate swaps begun in the current year. The fair values of unrecognised gains and losses at the balance sheet date are disclosed as part of note 19 (i) on page 63.

It is not possible to forecast meaningfully the amount that will be recognised in the profit and loss account next year. Further information about these hedges can be found within the financial review on page 24, note 18 and note 19 (ii).

20 Provisions for liabilities and charges

Group	Deferred taxation £m	Acquisition provisions £m	Disposal provisions £m	Vacant property provisions £m	Total £m
At 1st April 1999	19.8	0.7	4.8	–	25.3
Profit and loss account	(3.0)	–	–	–	(3.0)
Utilised	–	(0.1)	(1.7)	–	(1.8)
Transfers (to)/from creditors	–	(0.6)	(3.1)	10.0	6.3
At 31st March 2000	**16.8**	**–**	**–**	**10.0**	**26.8**

The vacant property provisions represent recognition of the net costs arising from vacant properties and sub-let properties, the exact timing of utilisation of these provisions will vary according to the individual properties concerned.

Parent	Deferred taxation £m	Disposal provisions £m	Total £m
At 1st April 1999	0.8	4.0	4.8
Profit and loss account	(5.5)	–	(5.5)
Utilised	–	(1.7)	(1.7)
Transfers to creditors	–	(2.3)	(2.3)
Transfer to debtors (see note 14)	4.7	–	4.7
At 31st March 2000	**–**	**–**	**–**

	Group 2000 £m	Group 1999 £m	**Parent 2000 £m**	Parent 1999 £m
Analysis of deferred taxation provision:				
Accelerated capital allowances	**13.7**	11.8	**–**	–
Other items	**3.1**	8.0	**(4.7)**	0.8
	16.8	19.8	**(4.7)**	0.8
Unprovided deferred taxation:				
Accelerated capital allowances	**77.2**	79.6	**27.3**	28.6
Other items	**1.8**	(1.9)	**2.3**	(1.1)
	79.0	77.7	**29.6**	27.5

It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation on gains on properties used for the purposes of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

21 Capital and reserves

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1999	228.8	252.0	276.2	36.8	986.4	1,780.2
Profit retained	–	–	–	–	177.3	177.3
Revaluation deficit	–	–	(3.3)	–	–	(3.3)
Revaluation surplus realised on disposals	–	–	(4.9)	–	4.9	–
Impairment losses on revalued assets	–	–	(1.1)	–	–	(1.1)
Issue of shares	–	0.5	–	–	–	0.5
Repurchase of shares (see note 22)	(4.0)	–	–	4.0	(95.4)	(95.4)
Currency adjustments	–	–	–	–	(6.6)	(6.6)
At 31st March 2000	**224.8**	**252.5**	**266.9**	**40.8**	**1,066.6**	**1,851.6**

The revaluation reserve includes £0.5m (1999 £5.5m) relating to investment properties.

Goodwill set off against reserves in respect of businesses still within the group is £783.9m (1999 £783.9m).

Parent	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1999	228.8	252.0	36.8	1,250.6	1,768.2
Loss retained	–	–	–	(162.7)	(162.7)
Issue of shares	–	0.5	–	–	0.5
Repurchase of shares (see note 22)	(4.0)	–	4.0	(95.4)	(95.4)
At 31st March 2000	**224.8**	**252.5**	**40.8**	**992.5**	**1,510.6**

22 Share capital

	Number of shares 2000 million	Number of shares 1999 million	**2000 £m**	1999 £m
Ordinary shares of 25p each:				
Authorised	**1,200.0**	1,200.0	**300.0**	300.0
Allotted, called up and fully paid	**899.3**	915.2	**224.8**	228.8

Shares allotted during the year	Number million	Nominal value £m	Consideration £m
Option schemes	0.1	–	0.5

Share repurchase

During the period September 1999 to February 2000, the company purchased, and subsequently cancelled, 16.0m ordinary shares at prices ranging from 469p per share to 688p per share, with an average of 593p per share. The total cost of the purchases including expenses was £95.4m, which has been charged against distributable reserves.

Share options

Under a savings-related scheme, options may be granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. At 31st March 2000, options exercisable from 2000 to 2007 at between 350p and 808p per share were outstanding in respect of 17.7m shares. Last year a qualifying employee share ownership trust was established to acquire shares in the company as a means by which shares would be delivered to employees exercising the options granted (see note 12).

Under an executive share option scheme, certain senior executives were granted options to subscribe for ordinary shares at a future date at a price based on the market price prevailing a few days before the date of grant. The practice of granting such options has ceased.

At 31st March 2000, such options were outstanding as follows:

Number of shares	Option price	Exercisable from 1st June 2000 to
2,500	286p	July 2000
63,500	399p	July 2001
71,500	437p	August 2002
97,500	438p	June 2003
149,000	531p	June 2004
20,000	519p	November 2004
10,000	482p	February 2005

At 31st March 2000 there were no outstanding executive share options held by executive directors.

23 Detailed analysis of gross cash flows

	2000 £m	1999 £m
Exceptional operating cash flows:		
Restructuring and integration costs paid	**(17.3)**	(9.3)
Cash flows relating to prior year disposals/acquisitions	**(2.0)**	(5.5)
VAT recovered from HM Customs & Excise	**–**	0.3
	(19.3)	(14.5)
Returns on investment and servicing of finance:		
Interest paid	**(35.0)**	(43.1)
Interest received	**25.2**	18.2
	(9.8)	(24.9)
Capital expenditure and financial investment:		
Purchase of fixed assets	**(265.7)**	(372.1)
Disposal of fixed assets	**92.5**	73.7
Purchase of own shares	**(57.9)**	(160.1)
Disposal of own shares	**10.1**	–
	(221.0)	(458.5)
Management of liquid resources:		
(Increase)/decrease in short term deposits	**(283.6)**	122.8
	(283.6)	122.8
Financing:		
Capital element of finance lease rental agreements	**(6.9)**	(6.5)
5.5% eurobond 2009	**300.0**	–
(Decrease)/increase in other borrowings	**(25.4)**	25.9
Cash inflow from change in borrowings and lease financing	**267.7**	19.4
Issue of ordinary share capital	**0.5**	8.8
Repurchase of shares	**(95.4)**	–
	172.8	28.2

24 Analysis of net debt

	As at 1st April 1999 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2000 £m
Cash at bank and in hand	32.2	11.8	–	(1.0)	**43.0**
Bank loans and overdrafts repayable on demand	(130.3)	27.0	–	0.2	**(103.1)**
Cash	(98.1)	38.8	–	(0.8)	**(60.1)**
Liquid resources	105.8	283.6	(9.4)	(0.8)	**379.2**
Obligations under finance leases	(19.9)	6.9	(4.1)	–	**(17.1)**
Other borrowings (including currency swaps)	(282.6)	(274.6)	16.1	1.5	**(539.6)**
Total	(294.8)	54.7	2.6	(0.1)	**(237.6)**

Liquid resources comprise listed investments, short term deposits and certificates of tax deposits (see note 15).

25 Commitments and contingent liabilities

(i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Contracts placed	**77.1**	107.9	**3.0**	16.0

(ii) Annual commitments under operating leases are as follows:

	Group Land and buildings £m	Group Other £m	Parent Land and buildings £m	Parent Other £m
Expiring:				
Within one year	8.5	0.8	1.3	–
Over one year and less than five years	21.7	2.6	1.5	1.1
Over five years	156.5	–	2.1	–
At 31st March 2000	**186.7**	**3.4**	**4.9**	**1.1**
Expiring:				
Within one year	4.6	1.1	0.2	–
Over one year and less than five years	20.4	1.3	3.6	–
Over five years	144.5	–	2.6	–
At 31st March 1999	169.5	2.4	6.4	–

(iii) Contingent liabilities

Knoll Pharmaceutical Co. ('Knoll') is a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll is the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of the company, which was sold to the BASF group under agreements made by the company in March 1995. The company has been named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. A revised settlement by Knoll of most of the consumer actions and claims of insurers and state attorneys general is currently under consideration for approval by the federal court in Illinois. Actions also have been filed against Knoll by various insurers and state attorneys general and some additional claims have been asserted against the company. The company asserts that the relevant courts in North America have no jurisdiction over it in these cases and this has been approved by a state court in Illinois. In the light of current information, the directors believe that the company has good defences to claims concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims remains uncertain, they believe that it should not have a material adverse impact on the group.

26 Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes, and are fully funded.

The principal UK pension scheme is Boots Pension Scheme. The independent scheme actuary carried out the latest valuation of the scheme as at 1st April 1998 using the projected unit method. The financial assumptions were derived from market yields on bonds at the valuation date. The key assumptions used for accounting purposes and the resulting funding level are given below.

Pension increases	3.0% p.a.
General pay increases	4.5% p.a.
Investment return	6.5% p.a.
Market value of assets	£2,025m
Value of accrued liabilities	£1,674m
Funding level	121%

The pension charge for the year was £5m (1999 £5m). This arises as a result of the regular cost of pensions being offset by amortisation of the surpluses disclosed by the 1989, 1992 and 1998 valuations and increased by the amortisation of the deficit in respect of the 1995 valuation. The surplus disclosed at the 1998 valuation is being recognised over approximately 13 years, the expected average remaining service life of members. The remaining amortisation period of the surpluses/deficits disclosed at the 1989, 1992 and 1995 valuations are approximately two, six, and nine years respectively.

The company recommenced contributions to the scheme at the rate of 10% of pensionable salaries from November 1999. Contributions paid in the year amounted to £17m. A pension provision of £5m (1999 £17m) is included within other creditors.

In common with other companies, additional pension arrangements (defined benefit) exist for those more recently recruited senior executives whose benefits, relative to long serving staff, are subject to statutory restrictions.

27 Staff numbers and costs

The average number of persons employed by the group during the year was as follows:

	2000 Number of heads	2000 Full time equivalents	1999 Number of heads	1999 Full time equivalents
Continuing operations				
Boots The Chemists	**62,133**	**37,630**	63,173	38,926
Boots Retail International	**961**	**792**	571	497
Boots Opticians	**4,349**	**3,319**	4,526	3,470
Halfords	**9,791**	**6,157**	9,936	6,327
Boots Properties	**80**	**78**	77	77
Boots Healthcare International	**2,378**	**2,291**	2,242	2,175
Boots Contract Manufacturing	**4,021**	**3,823**	4,155	4,077
Group Strategic Initiatives	**194**	**175**	–	–
Central	**788**	**742**	836	753
	84,695	**55,007**	85,516	56,302
Discontinued operation				
Do It All	–	–	1,878	1,260
Total	**84,695**	**55,007**	87,394	57,562

Total number of persons employed by continuing operations at 31st March 2000 was 85,115 heads, 54,650 full time equivalents (1999 83,369 heads, 54,603 full time equivalents).

The aggregate payroll cost was as follows:	2000 £m	1999 £m
Wages and salaries	**887.0**	908.2
Social security costs	**66.2**	71.5
Other pension costs	**6.9**	6.4
	960.1	986.1
Analysed as:		
Continuing operations	**960.1**	965.3
Discontinued operation	–	20.8
	960.1	986.1

28 Remuneration of directors and directors' shareholdings

Details of the remuneration, shareholdings and share options of the directors are included in the board remuneration report on pages 32 to 37.

29 Related party disclosures

During the year the group had no material transactions with related parties.

There were transactions with joint ventures which were carried out at arm's length.

	Principal activities	Percentage held by parent	Percentage held by subsidiary undertakings	Country of incorporation where operating overseas
Parent				
The Boots Company PLC	Manufacturing, marketing and distribution of healthcare and consumer products			
Subsidiary undertakings (incorporated in Great Britain)				
BCM Ltd.	Manufacturing pharmaceuticals and consumer products	100		
Boots Development Properties Ltd.	Property development		100	
Boots Healthcare International Ltd.	Marketing consumer products	100		
Boots Opticians Ltd.	Registered opticians		100	
Boots Properties PLC	Property holding	100		
Boots The Chemists Ltd.	Retail chemists	100		
Crookes Healthcare Ltd.	Marketing consumer products	100		
Halfords Ltd.	Retailing of auto parts, accessories and bicycles and car servicing	100		
Optrex Ltd.	Marketing consumer products	100		
Subsidiary undertakings (incorporated overseas)	Activities refer to healthcare and/or consumer products unless otherwise indicated			
Boots Healthcare Australia Pty. Ltd.	Marketing	100		Australia
Boots Healthcare Products (Austria) GmbH	Marketing	100		Austria
Boots Healthcare SA NV	Marketing		100	Belgium
Boots Healthcare SA	Marketing		100	France
BCM Cosmétique SA	Manufacturing and marketing (M&M)	100		France
Laboratoires Lutsia SA	M&M		100	France
Roval SA	Manufacturing		100	France
BCM Kosmetik GmbH	M&M	100		Germany
Hermal Kurt Herrman oHG	M&M		100	Germany
Boots (Retail Buying) Ltd.	Buying	100		Hong Kong
Boots Piramal Healthcare Ltd.	Marketing	60		India
Boots Healthcare Ltd.	Marketing	100		Ireland
Boots Healthcare S.p.A.	M&M	100		Italy
Marco Viti Farmaceutici S.p.A.	M&M	100		Italy
BCM Italia S.p.A.	Marketing		100	Italy
The Boots Company Japan k.k.	Marketing	100		Japan
Boots Investments Ltd.	Investment company	100		Jersey
Boots Trading (Malaysia) Sdn. Bhd.	Marketing	100		Malaysia
Boots Healthcare BV	Marketing		100	Netherlands
Boots Healthcare New Zealand Ltd.	Marketing	100		New Zealand
The Boots Company (Philippines) Inc	Marketing	100		Philippines
Boots Healthcare Sp.z.o.o.	Marketing	100		Poland
Boots Healthcare Portugal – Produtos De Saúde LDA	Marketing		100	Portugal
The Boots Company (Far East) Pte. Ltd.	Marketing	100		Singapore
Boots Healthcare S.A.	Marketing	100		Spain
Boots Healthcare (Switzerland) AG	Marketing	100		Switzerland
The Boots Company (Thailand) Ltd.	Marketing	100		Thailand
Boots Retail (Thailand) Ltd.	Retail	49	51	Thailand
Joint Ventures				
handbag.com Ltd. (Jointly controlled with Hollinger Telegraph New Media Ltd.)	Internet	50		UK
Boots MC Company k.k. (Jointly controlled with Mitsubishi Corporation)	Retail	51		Japan

Percentages relate to holdings of ordinary share capital.
All companies operate principally in the country of incorporation.
Minority shareholders have equity and non-equity holdings in certain subsidiaries incorporated in Thailand and India.

Profit and loss account	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover	**5,187.0**	5,044.6	5,021.9	4,578.0	4,124.7
Group operating profit before exceptional items	**573.3**	564.1	538.0	491.8	442.6
Share of operating loss of joint ventures	**(8.4)**	(1.7)	–	–	–
Total operating profit before exceptional items	**564.9**	562.4	538.0	491.8	442.6
Operating exceptional items	**(22.0)**	(76.3)	5.5	8.6	12.8
Total operating profit including joint ventures	**542.9**	486.1	543.5	500.4	455.4
Other exceptional items	**12.9**	(314.0)	(126.8)	26.3	1.4
Profit on ordinary activities before interest	**555.8**	172.1	416.7	526.7	456.8
Net interest	**5.9**	(1.8)	15.2	44.4	50.9
Profit on ordinary activities before taxation	**561.7**	170.3	431.9	571.1	507.7
Taxation	**(162.5)**	(146.3)	(169.2)	(178.3)	(167.1)
Profit on ordinary activities after taxation	**399.2**	24.0	262.7	392.8	340.6
Minority interests	**(0.2)**	(0.1)	1.3	0.5	–
Profit attributable to shareholders	**399.0**	23.9	264.0	393.3	340.6
Dividends	**(221.7)**	(214.5)	(203.4)	(586.1)	(176.4)
Profit/(loss) retained	**177.3**	(190.6)	60.6	(192.8)	164.2

Total recognised gains and losses	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Profit attributable to shareholders	**399.0**	23.9	264.0	393.3	340.6
(Deficit)/surplus on revaluation of properties	**(3.3)**	(1.4)	(1.4)	27.1	16.0
Impairment losses on revalued assets	**(1.1)**	(1.7)	–	–	–
Currency translation differences	**(6.6)**	3.0	(13.7)	(10.4)	3.3
Other net gains	**–**	0.4	–	0.3	–
Recognised gains and losses for the year	**388.0**	24.2	248.9	410.3	359.9

Movements in shareholders' funds	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Recognised gains and losses for the year	**388.0**	24.2	248.9	410.3	359.9
Dividends	**(221.7)**	(214.5)	(203.4)	(586.1)	(176.4)
New share capital subscribed	**0.5**	8.8	11.8	7.7	9.1
Repurchase of shares	**(95.4)**	–	–	(300.0)	–
Goodwill relating to acquisitions prior to 1st April 1998	**–**	(1.4)	(189.3)	(124.5)	(8.7)
Goodwill released on disposal of businesses	**–**	312.2	121.5	4.4	0.1
Scrip dividends	**–**	–	27.8	8.3	10.6
Increase/(decrease) in shareholders' funds	**71.4**	129.3	17.3	(579.9)	194.6

73 Group financial record

Balance sheet	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Fixed assets	**1,861.3**	1,853.0	1,694.2	1,803.5	1,651.0
Investments	**141.2**	112.4	2.6	0.5	46.4
Net current assets	**367.0**	71.2	264.2	184.4	700.3
Other creditors	**(489.2)**	(230.7)	(258.6)	(274.9)	(150.5)
Provisions for liabilities and charges	**(26.8)**	(25.3)	(51.5)	(80.0)	(33.7)
Net assets	**1,853.5**	1,780.6	1,650.9	1,633.5	2,213.5
Represented by:					
Shareholders' funds	**1,851.6**	1,780.2	1,650.9	1,633.6	2,213.5
Minority interests	**1.9**	0.4	–	(0.1)	–
	1,853.5	1,780.6	1,650.9	1,633.5	2,213.5

Cash flow statement	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Cash inflow from operating activities	**753.7**	601.9	605.6	515.1	536.5
Returns on investment and servicing of finance	**(9.8)**	(24.9)	(10.5)	39.1	16.2
Taxation	**(154.4)**	(112.4)	(232.8)	(174.4)	(152.7)
Capital expenditure and financial investment	**(221.0)**	(458.5)	9.1	(169.6)	(197.3)
Acquisitions and disposals	**(2.6)**	55.2	(190.4)	(40.4)	(48.4)
Equity dividends paid	**(216.3)**	(207.1)	(563.3)	(169.8)	(154.4)
Cash flow before use of liquid resources and financing	**149.6**	(145.8)	(382.3)	–	(0.1)
Management of liquid resources	**(283.6)**	122.8	371.9	288.5	122.8
Financing	**172.8**	28.2	(8.8)	(258.1)	(125.4)
Increase/(decrease) in cash	**38.8**	5.2	(19.2)	30.4	(2.7)

Statistics	2000	1999	1998	1997	1996
Sales growth from continuing operations	**5.6%**	5.9%	11.7%	13.8%	5.8%
Return on shareholders' funds before exceptional items	**22.6%**	23.7%	23.6%	16.3%	16.4%
Earnings per share	**45.0p**	2.6p	29.0p	42.9p	35.8p
Earnings per share before exceptional items	**45.4p**	42.9p	42.6p	39.5p	34.7p
Net (debt)/funds (£m)	**(237.6)**	(294.8)	(149.4)	229.5	526.2
Capital expenditure (£m)	**252.8**	369.4	276.6	226.9	239.7

Return on shareholders' funds is calculated as profit on ordinary activities before exceptional items and after taxation as a percentage of opening shareholders' funds.

Shareholder value	2000	1999	1998	1997	1996
Dividend per share	**25.2p**	23.8p	22.3p	64.7p	18.5p
Dividend cover before exceptional items	**1.8**	1.8	1.9	0.6	1.9
Share price:					
Highest	**884p**	1070p	963p	701p	627p
Lowest	**457p**	836p	676p	555p	500p

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover, including inter-segmental turnover:					
Boots The Chemists	**3,978.8**	3,823.1	3,573.7	3,313.5	3,107.6
Boots Retail International – group	**30.2**	15.8	5.2	–	–
– share of joint venture	**2.3**	–	–	–	–
Boots Opticians	**195.7**	194.3	182.9	148.1	132.3
Halfords	**492.6**	457.3	435.0	412.8	390.5
Boots Properties – Development	**45.9**	4.8	49.4	0.5	7.0
– Investment	**93.6**	91.5	100.2	101.6	95.9
Boots Healthcare International	**327.1**	308.4	273.7	243.4	206.7
Boots Contract Manufacturing	**321.1**	309.8	314.9	259.5	239.4
handbag.com - share of joint venture	**0.1**	–	–	–	–
Group Strategic Initiatives	**2.4**	–	–	–	–
Operating profit before operating exceptional items:					
Boots The Chemists	**491.6**	461.8	443.8	426.5	384.8
Boots Retail International – group	**(27.1)**	(19.2)	(21.2)	(8.5)	(1.1)
– share of joint venture	**(5.5)**	(1.7)	–	–	–
Boots Opticians	**11.2**	14.5	17.0	13.8	10.9
Halfords	**45.2**	40.3	34.2	26.8	22.1
Boots Properties – Development	**2.5**	(0.2)	8.8	–	1.8
– Investment	**59.8**	65.4	67.2	72.1	66.4
Boots Healthcare International	**24.0**	15.3	1.2	(6.6)	(8.2)
Boots Contract Manufacturing	**25.2**	24.3	24.7	19.7	16.7
handbag.com - share of joint venture	**(2.9)**	–	–	–	–
Group Strategic Initiatives	**(17.7)**	(0.8)	–	–	–
Capital expenditure:					
Boots The Chemists	**125.7**	251.4	146.9	88.3	86.1
Boots Retail International	**11.2**	9.0	4.8	1.1	–
Boots Opticians	**7.8**	10.4	7.8	8.9	11.2
Halfords	**20.6**	15.5	14.9	12.3	14.5
Boots Properties	**64.4**	52.6	61.6	63.8	75.1
Boots Healthcare International	**5.1**	8.4	7.4	11.0	12.5
Boots Contract Manufacturing	**18.0**	20.5	26.5	31.4	29.5

Annual general meetings

The annual general meeting will be held at 11.00 am on Thursday, 27th July 2000 at the Royal Concert Hall, Theatre Square, Nottingham NG1 5ND. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice.

The proposed date of the annual general meeting next year is 26th July 2001.

Dividend payments

The proposed final dividend (if approved) will be paid on 18th August 2000 to shareholders registered on 16th June 2000. Most shareholders (excluding those in Canada and the USA) will have the opportunity to reinvest their cash dividend in existing shares bought on the London Stock Exchange through a dividend reinvestment plan. All applications to join that plan or amend existing instructions under it must be received by the company's registrars by 5.00 pm on 28th July 2000.

The expected dividend payment dates for the year to 31st March 2001 are:

Interim dividend	February 2001
Final dividend	August 2001

Results

For the year to 31st March 2001:

Interim results announced	November 2000
Interim statement circulated	November 2000
Preliminary announcement of full year results	May 2001
Annual report circulated	June 2001

Capital gains tax

For capital gains tax purposes, the market price of the company's ordinary shares of 25p each on 31st March 1982 was 112.5p.

Low cost share dealing services

Details of special low cost dealing services in the company's shares may be obtained from:

- **Hoare Govett Limited** (telephone 0207 678 8000) Hoare Govett is regulated by the Securities and Futures Authority.
- **Natwest Stockbrokers Limited** (telephone 0207 895 5489) a member of the London Stock Exchange and regulated by the Securities and Futures Authority.

Both Hoare Govett Limited and Natwest Stockbrokers Limited have approved the references to them for the purposes of section 57 of the Financial Services Act 1986.

Registrar and transfer office

Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. Telephone 0870 702 0148.

Company secretary and registered office

M J Oliver; The Boots Company PLC, Nottingham NG2 3AA. Telephone 0115 950 6111.
The Boots Company PLC is registered in England and Wales (No. 27657).

Analysis of shareholders at 31st March 2000

Shareholding range	Number	%	Total holding	%
1–500	55,293	38.54	13,545,739	1.51
501–1,000	34,977	24.38	26,706,869	2.97
1,001–10,000	50,243	35.02	127,837,540	14.21
10,001–100,000	2,372	1.66	58,353,312	6.49
100,001–1,000,000	449	0.31	135,842,703	15.11
Over 1,000,000	133	0.09	537,020,152	59.71
	143,467	100.00	899,306,315	100.00

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